

# City of Irvine Housing Strategy & Implementation Plan

Adopted March 14, 2006  
Amended June 24, 2014  
Amended November 10, 2015

*Creating a spectrum of housing for  
our future*



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## **Executive Summary**

The cost of housing is very high in Orange County, and particularly so in desirable areas like the City of Irvine. The median price of a single-family home in Irvine is now \$800,000<sup>1</sup>, higher than the Orange County average (\$707,000) and much higher than the overall average for California (\$538,770).

Since its incorporation in 1971, the City of Irvine has been a leader in Orange County and in Southern California in the creation of a full spectrum of housing opportunities, including affordable housing. The City has provided inclusionary incentives locally and has also provided funding for various affordable housing projects over the years. As a result, the City now has 4,400 units of affordable housing, of which 3,155 were created through its inclusionary program and another 1,245 through HUD-assisted projects. Unfortunately, many of these affordable housing units are now at risk of losing their affordability due to expiring controls, restrictions and/or subsidies.

The recent annexation of the former El Toro Marine Corps Air Station property, and the City's subsequent creation of a Redevelopment Agency with El Toro as its project area, has created a new and significant opportunity for future affordable housing. The build out of the residential portion of this property, together with the continuing build out of the rest of the City, will provide the City with the ability to create a significant number of new affordable housing units.

To capitalize on this opportunity, the City of Irvine hired CivicStone, Inc., a consulting firm specializing in affordable housing, to develop a housing strategy for the City. This report represents the culmination of this work.

## **Methodology**

The study methodology involved the following steps:

- a. Review of baseline data, including the City's Housing Element, the Consolidated Plan, and census and other housing data for Irvine and Orange County, produced either internally or externally.
- b. Interviews with community stakeholders to learn of their perspectives and opinions regarding affordable housing in Irvine.
- c. The creation of a Housing Task Force to work with the consultants to create a vision for future housing opportunities and a list of priority projects and programs. (See Figure 1 on the next page).
- d. City Council review and adoption of the Vision Statement.
- e. Projections of revenue sources to support affordable housing projects and programs.
- f. The creation of a unit and revenue model to estimate the feasibility of achieving the City's ambitious production goal.

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<sup>1</sup> As of January, 2006

## Figure 1

### City of Irvine Housing Strategy Vision Statement Adopted 09.27.05

By the year 2025, The City of Irvine will have a population of 250,000 and will have a full spectrum of housing types to meet the shelter needs of all income groups and special needs populations in all stages of life. Total housing units will increase from 61,800 (2005) to 97,000 (2025) and the number of affordable units will increase from 5 percent currently (3,155) to 10 percent (9,700).

#### Candidate Housing Priorities

Irvine's overall housing strategy will maintain the high quality of both new and existing housing, emphasizing permanent affordability whenever possible, and continue to disperse the affordable units throughout the community. Design standards will incorporate green design/sustainable development and accessible development features to improve affordability and contribute to resource conservation and accessibility in the community.<sup>2</sup>

The strategy will have the following priorities (not stated by order of priority):

- Facilitate development of additional rental housing.
- Create equity-building opportunities for first-time homebuyers by facilitating the renter-to-owner transition process and increasing the amount of for-sale affordable housing.
- Partner with Irvine's colleges and universities to create additional faculty and student housing.
- Develop housing in all residential areas of the City for special needs groups (including, but not limited to, youth, seniors, veterans, single parents, developmentally disabled, SROs, people living with AIDS or chronic illnesses, supportive/transitional housing, and mobile home parks).
- Preserve existing affordable housing.
- Reduce frequency and duration of homelessness.
- Encourage development of a spectrum of housing choice and cost for veterans to permit "upward mobility". Such housing should include, but not be limited to supportive/transitional housing, rental housing available at all income levels and for all household sizes, and ownership housing.

The implementation of the strategy will take into account the housing needs assessment as reflected in the City's updated Housing Element. The City will partner with the business community in this effort and also encourage other Orange County cities to follow its lead in creating more affordable housing.

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<sup>2</sup> Recycling construction waste, decreasing energy consumption, using durable, sustainable, recycled materials, reducing water use for landscaping, providing on-site supportive services and creating transit alternatives.

## Recommendations

As the Vision Statement indicates, the City has adopted an ambitious goal of 9,700 units of affordable housing by the year 2025, representing 10 percent of the City's total projected housing units. To meet this goal, the City will need to be highly pro-active in facilitating the creation of affordable housing over the next 20 years.

Fortunately, there are substantial resources to support that effort. According to current estimates, the City will generate \$143 million in 20 percent housing set-aside funds<sup>3</sup> generated from the development of the El Toro project area, and also an equivalent of \$125 million from in-lieu fees created through its inclusionary housing program.<sup>4</sup> Other resources are also available.<sup>5</sup>

In order to maximize the use of these resources, the Housing Strategy and Implementation Plan presents three primary recommendations:

### 1. Creation of the Irvine Community Land Trust (the "Trust")

The Trust will be the vehicle through which the City implements its affordable housing strategy. While typically small and infrequent in California, community land trusts ("CLTs") have been used in other parts of the country to create significant amounts of permanently affordable housing. CLTs do this by retaining ownership of land (either donated or purchased) and leasing the land to the owner of the improvements for the creation of affordable housing. CLTs retain both the ownership of the land and the right to repurchase the improvements in the future at a formula-determined price, enabling the units to be re-sold or re-rented at affordable prices in perpetuity. In addition to ownership and rental projects, CLTs can also facilitate the creation of affordable housing designed to serve special needs populations.

The Irvine Community Land Trust (Trust) would have the following characteristics:

- a. Approved by the IRS as a 501c3 public charity.
- b. Governed by an initial seven member Board of Directors, appointed by the City Council, including two Council representatives, three community representatives, and two resident representatives.<sup>6</sup> The Trust also includes an "Advisory Committee" which would include local developers, non-profits, bankers, and other stakeholders.

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<sup>3</sup> NPV at 6 percent.

<sup>4</sup> The current inclusionary ordinance allows developers the "menu" options of satisfying the 15 percent requirement by building affordable units, paying equivalent in-lieu fees, or donating land of equivalent value.

<sup>5</sup> Community Development Block Grants, HOME program, and federal low income housing tax credits are also available.

<sup>6</sup> The resident representatives would eventually be elected by the residents of the Trust's projects. Community representatives will eventually be elected by the Trust Board, while the Council representatives will always be appointed by the City Council.

- c. Initially staffed by City employees and later with non-City employees.
- d. Capitalized eventually with a seed grant from RDA set-aside funds (allowable expenditure) estimated at \$250,000.
- e. Self-sustaining from development fees and fees for services (projected to cover operating expenses after the Trust attains 200 units).
- f. Begin with the development of an affordable homeownership project and an affordable rental project, then expand into development of special needs projects.<sup>7</sup>
- g. City can take control, should problems arise, and resolve them.<sup>8</sup>

## 2. Modification of the City’s Existing Homeownership and Rental Housing Programs

Modify the existing programs to work with the Trust would make the Trust the central implementing body of the City’s housing strategy. Suggestions for various program modifications are included in the full report.

## 3. Adoption of New Design Guidelines

New design guidelines would incorporate green design/sustainable development features to improve affordability and contribute to resource conservation and accessibility in Irvine.

### **Strategy Implementation**

In order to achieve the ambitious goal of 10 percent (9,700 units) by 2025, the City must first establish the Irvine Community Land Trust. With the Trust in place, the City can use it to take maximum advantage of all available resources, both now and in the future, to create permanently affordable housing.

In order to project how the 10 percent (9,700 units) goal can be attained, a unit and revenue model was developed which includes a series of assumptions that influence the total unit outcome by 2025. Key assumptions include (1) estimates of per unit subsidies necessary to create affordability, (2) the various revenue sources generated over time to support the strategy, and (3) the costs of preserving affordability of existing “at risk” units. Other variables could also affect the final unit count (i.e. the use and/or transfer of density bonuses). The model summary appears on the following page and details appear in the appendix of the report.

The model demonstrates that the goal of 9,700 units is possible but will require significant changes to the City’s housing programs. With conservative assumptions based on the City’s currently projected revenues and inclusionary requirements, a total of 7,929 units are likely to be produced, 1,771 units short of the goal. However, the goal

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<sup>7</sup> Special needs projects include senior housing, assisted living projects, transitional/supportive housing, homeless shelters and programs, projects for developmentally disabled populations, housing projects for veterans, etc.

<sup>8</sup> Control is maintained by agreements on land transfer.

of 9,700 units would be achievable under slightly more aggressive assumptions. For example, if the City sets aside more than the minimum 20 percent of tax increment funds for affordable housing, increases incentives in the inclusionary ordinance, negotiates for preservation of existing affordable units, and/or increases its leverage of state and federal housing funds, 9,700 units is possible.

<b>City of Irvine</b>					
<b>Affordable Unit &amp; Revenue Projections</b>					
March 7, 2006					
<b><u>ASSUMPTIONS (see appendix for further details)</u></b>					
Percent of IBC area paying an in-lieu fee	10%				
Percent annual increase in construction costs	3%				
Percent annual increase in land value (in-lieu fee)	5%				
Total # of units at Great Park	3,625				
Affordable Rental Units Built From Available Revenues	80%				
Affordable Ownership Units Built From Available Revenues	20%				
Existing/Approved Ownership Units *					
Previous DAP units	10				
Newly funded DAP units	10				
Habitat for Humanity	12				
Approved For Sale Units	93				
Total	125				
<b><u>PROJECTED HOUSING REVENUES</u></b>					
	<b>2006</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Low/Mod Housing Set-Aside	\$1,300,035	\$22,464,981	\$67,899,974	\$120,278,238	\$180,999,699
In-Lieu Fee (IBC Area)	\$2,494,200	\$13,782,029	\$13,782,029	\$13,782,029	\$13,782,029
In-Lieu Fee (Infill Projects)	\$50,000	\$340,096	\$710,339	\$710,339	\$710,339
In-Lieu Fee (Great Park)	\$0	\$0	\$0	\$0	\$0
CDBG Capital Expenditures towards subsidizing units	\$500,000	\$3,000,000	\$5,500,000	\$8,000,000	\$10,500,000
HOME less CHDO Set Aside & Admin	\$487,500	\$2,925,000	\$5,362,500	\$7,800,000	\$10,237,500
Total Housing Revenues Available To Build New Units	\$4,831,735	\$37,680,371	\$93,254,843	\$150,570,607	\$216,229,567
<b><u>PROJECTED UNITS BUILT PER YEAR</u></b>					
Subsidy Per Affordable Rental Unit (see appendix for assumptions)	\$150,000	\$154,500	\$159,135	\$163,909	\$168,826
Subsidy Per Affordable Ownership Unit (110% median income buyer)	\$150,000	\$154,500	\$159,135	\$163,909	\$168,826
Agency Assisted Rental Units Built <i>Per Year</i>	26	208	422	630	835
Agency Assisted Ownership Units Built <i>Per Year</i>	6	52	105	157	209
Total Agency Assisted Affordable Units Built <i>Per Year</i>	32	260	527	787	1,044
<b><u>CUMULATIVE UNITS AVAILABLE</u></b>					
Existing Affordable Units (3,155 + 1,245)	4,400	2,842	1,677	1,677	1,677
Preservation of Existing Affordable Units at no cost	0	0	0	0	0
Existing/Approved Ownership Units *	18	125	125	125	125
Inclusionary Units Built per MAHP	250	2,500	3,189	3,189	3,189
Inclusionary Units Built (IBC)	0	1,350	1,350	1,350	1,350
Total Agency Assisted Units (Permanently Affordable)	32	260	527	787	1,044
Great Park Affordable Housing (15% of Total Great Park Units)	0	450	544	544	544
Inclusionary Infill Units (Non MAHP, Great Park, IBC)	0	0	0	0	0
Total Affordable Units	<b>4,700</b>	<b>7,527</b>	<b>7,412</b>	<b>7,672</b>	<b>7,929</b>



The model results emphasize the need for the City to be aggressively proactive to maximize the acquisition of land, together with the use and leverage of its funds, in order to achieve this goal. For example, under the City's current inclusionary housing requirements, 15 percent of all new construction projected through build-out will result in 5,459 affordable units. The remaining 4,241 units of the 9,700 goal, if built, would require approximately 170 acres of land. However, if half of the existing 4,400 affordable units could be preserved, the land requirement would be reduced to 89 acres.<sup>9</sup>

The implementation plan includes nine action steps:

1. Approve the strategy, appoint the interim Board of the Trust, and authorize the Board to file the 501c3 application with the IRS.
2. Direct City staff to serve as initial Trust staff.
3. Appoint the rest of the Board and, while awaiting IRS approval, begin organizational activities with the Trust, including the creation of the Trust's business plan, financial projections and legal documents (land lease, resale agreements, etc.).
4. Approve a seed grant based on the Trust's final business plan, which will cover the Trust's estimated capital needs to sustainability, and fund it from Redevelopment set-aside funds. The seed grant is currently estimated at \$250,000 but due to interim staffing by the City, will probably not be necessary until FY 2008 to 2010. The amount of the grant is subject to revision upon completion/adoption of the Trust's final business plan.
5. Update housing affordability standards consistent with the requirements of State law and describe how the City implements the law in its affordable housing programs.
6. Revise the City's Inclusionary Housing Program to (1) require permanent affordability for future inclusionary units created, through permanent affordability covenants dedicated to the Trust; (2) revise the inclusionary program to increase the incentives for land donations to the Trust; and (3) resist investing local subsidy funds into inclusionary units because this will diminish the ability to create more new units.
7. Develop project priorities for the Trust, beginning with an affordable homeownership project and an affordable rental project (as described above) and then proceed to develop special needs projects. Evaluate the trade-offs between preserving existing units and building new ones, particularly if the new units will be permanently affordable.

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<sup>9</sup> Assumes a density of 25 units to the acre.

8. Implement a Community Land Trust Outreach Program to inform bankers, non-profits, community groups, the County of Orange, affordable housing service providers, and other stakeholders of the creation of the Trust so that they will understand the concept and be prepared to work with and support the Trust.
9. Create and update unit production objectives every five years from 2006 through 2025, and use the model described above to track progress and manage toward the five year goals and the 20 year ten percent (9,700 units) goal. Also make the Strategy a “living” document with periodic updates to reflect future changes in housing needs, subsidy sources, changes in federal and state requirements, etc.

### **Future Possibilities**

Although not presently contemplated in this strategy, community land trusts are eligible to develop mixed-use projects, including a combination of commercial and residential space. Some CLTs use the commercial rents to cross-subsidize their affordable housing projects, thereby generating an internal on-going source of subsidy. This might be an option for Irvine in the future.

In the same context, some CLTs have also participated in the development of “non-profit villages,” for which CLTs lease land for the creation of below-market commercial space for non-profits’ offices and operations.



## **I. INTRODUCTION**

The City of Irvine is one of the most successful master planned communities in the country, and has become a community that is highly desirable for Southern California residents. Many factors make a community desirable, and one of the key factors is home affordability. An effective measuring tool of home affordability is to compare a city's median home price to that of surrounding communities, the county and the State. Although the quality of life in Irvine is reported to be high, the City struggles with how to address affordability in home prices. While the median home price in California and Orange County is \$538,770 and \$707,000 respectively, the median home price in the City of Irvine as of January 2006 is \$800,000.

Despite this disparity in regional home prices, the City of Irvine has been committed to creating opportunities for affordable housing since its incorporation in 1971. The Irvine City leaders and staff have worked diligently over the years to bring a spectrum of housing opportunities to the City, of which nearly a third serve extremely low and very low income groups. In fact, Southern California residents are often surprised to learn of the variety of affordable housing opportunities that exist in Irvine. Not only are there a variety of affordable housing projects within the City, but affordable advocacy groups have noted Irvine's high quality affordable housing stock. The City of Irvine has provided an excellent example for other communities in Orange County and Southern California.

Although so much has been accomplished over the years to create, maintain and enhance Irvine's physical environment, recent events have created new affordable housing opportunities for Irvine as it enters the final and vital stage of its development.

This Housing Strategy Report and Implementation Plan reviews the past accomplishments and presents new affordable housing opportunities. City leaders and staff are supportive of affordable housing and are open to innovative ideas for new affordable housing in Irvine. This document will present the results of extended research, propose an affordable housing strategy for the City of Irvine, and offer an implementation plan to put the strategy into action.



## II. METHODOLOGY

Several factors led to the development of the affordable housing strategy:

1. In March 2003, the City Council approved amendments to the City of Irvine's Affordable Housing Implementation Procedures. The revisions made it mandatory that 15 percent of the City's new housing development be affordable. In October 2003, the City Council approved a defined affordable housing in-lieu fee and credits program. In 2004, the City Council adopted priorities and policies for the use of in-lieu fees.
2. In March 2003, the City Council approved a Master Affordable Housing Program submitted by The Irvine Company for planning areas in the northern part of the City. Since then, changes to the zoning of other areas have increased the maximum permitted number of dwelling units in all the remaining planning areas to 21,253. The inclusionary requirements of the City will generate the following number of affordable units:

i. Extremely Low, Very Low Income	1,063 units
ii. Low Income	1,063 units
iii. Moderate Income	<u>1,063 units</u>
Total	3,189 units

3. In 2005, Irvine's recently established Redevelopment Agency established its first and only redevelopment Project Area. This created a mechanism to obtain significant revenues from housing set-aside funds, which are generated from property taxes, contingent upon future development of the project area.
4. In 2005, the El Toro Marine Corps Air Station, previously annexed to the City after base closure, was sold to Lennar Corporation. This action began the timeline to develop the housing surrounding the Great Park and also created the opportunity for tax increment financing (see Section III Redevelopment in Irvine for further explanation) for the Redevelopment Agency's Project Area.

Recognizing the resources the redevelopment project area would create for affordable housing, the City Council directed staff to develop goals and a comprehensive strategy and plan for the City's housing needs. To develop the Housing Strategy and Implementation Plan, a contract with CivicStone, Inc. was approved at the City Council and Redevelopment Agency meeting on March 15, 2005. CivicStone was selected due to their prior experience in the development of affordable housing strategies for cities, including cities with decommissioned military bases. Team members also had experience with several non-profit organizations which were operating affordable housing programs in Irvine and in Orange County.

The Housing Strategy and Implementation Plan was developed with advice and input from the Irvine City Council, members of the Planning Commission and other local commissions, and various affordable housing groups. Community involvement was also solicited from other individuals and organizations operating in and around Irvine. In all, 35 affordable housing “stakeholders” were interviewed. Their input was indispensable in structuring the direction and focus of the vision for housing and the priorities for specific affordable housing projects and programs in Irvine. This inclusive process has enabled the development of a strategy which reflects the ideas and suggestions of a broad-based constituency.

The creation of the Housing Strategy and Implementation Plan proceeded through the following steps:

1. Determining and prioritizing housing needs in the City.
2. Reviewing potential development opportunities.
3. Establishing a vision statement and priorities.
4. Designing housing programs and projects to meet the needs.
5. Adopting the overall Housing Strategy.
6. Approving the Implementation Plan for the Strategy.

In addition to the interviews described above, CivicStone consultants reviewed related available data pertinent to the creation of the Housing Strategy and Implementation Plan, including:

1. The current Housing Element.
2. City of Irvine Zoning Code - Chapter 2.3, Affordable Housing Implementation Procedure.
3. Housing Market Analysis – 2005-2009 Consolidated Plan.
4. Strategic Plan – 2005-2009 Consolidated Plan.
5. Master Affordable Housing Program – March 2003 Amended August 2004.
6. Affordable Housing Status Report – September 2004.
7. Irvine Demographic Information.
8. Renters’ Advisory Task Force Report - August 2001.

To assist the CivicStone team in the development of the strategy, a Housing Task Force was appointed by the City Council. The Housing Task Force helped develop the vision statement for the Housing Strategy, reviewed the concepts proposed, and also reviewed the Implementation Plan. Finally, the Housing Task Force voted to recommend that the City Council adopt the Housing Strategy and Implementation Plan.

The following individuals served as members of the Housing Task Force:

1. The Honorable Beth Krom, Mayor
2. Mr. Larry Agran, City Councilmember, Chair, Orange County Great Park Board

3. Ms. Mary Ann Gaido, Chair Planning Commission
4. Mr. Doug Sheldon, Planning Commissioner
5. Ms. Jeannie Luong – Community Services Commissioner
6. Dr. Thomas Parham – Past Planning Commissioner and University of California at Irvine faculty member
7. Dr. Mary Scott – Vice President of Administration, Concordia University

The Task Force meetings were open to the public and attended by various stakeholders in affordable housing and other members of the community. These meetings helped determine the future priorities and direction of housing in Irvine.

On September 27, 2005 the City Council and Redevelopment Agency Board approved the Vision Statement of the Housing Strategy as recommended by the Housing Task Force. This Vision Statement will shape the Housing Strategy as well as future policy decisions for affordable housing in the City of Irvine. It is presented on the following page.



## **City of Irvine Housing Strategy Vision Statement Adopted 09-27-05**

By the year 2025, The City of Irvine will have a population of 250,000 and will have a full spectrum of housing types to meet the shelter needs of all income groups and special needs populations in all stages of life. Total housing units will increase from 61,800 (2005) to 97,000 (2025) and the number of affordable units will increase from 5 percent currently (3,155) to 10 percent (9,700).

### Housing Priorities

Irvine's overall housing strategy will maintain the high quality of both new and existing housing, emphasizing permanent affordability whenever possible, and continue to disperse the affordable units throughout the community. Design standards will incorporate green design/sustainable development and accessible development features to improve affordability and contribute to resource conservation and accessibility in the community.

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The strategy will have the following priorities (not stated by order of priority):

Facilitate development of additional rental housing.

Create equity-building opportunities for first-time homebuyers by facilitating the renter-to-owner transition process and increasing the amount of for-sale affordable housing.

Partner with Irvine's colleges and universities to create additional faculty and student housing.

Develop housing for special needs groups (including, but not limited to, youth, seniors, veterans, single parents, developmentally disabled, SROs, people living with AIDS or chronic illnesses, supportive/transitional housing, and mobile home parks).

Preserve existing affordable housing.

Reduce frequency and duration of homelessness.

Encourage development of a spectrum of housing choice and cost for veterans to permit "upward mobility". Such housing should include, but not be limited to supportive/transitional housing, rental housing available at all income levels and for all household sizes, and ownership housing.

The implementation of the strategy will take into account the housing needs assessment as reflected in the City's updated Housing Element. The City will partner with the business community in this effort and also encourage other Orange County cities to follow its lead in creating more affordable housing.

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<sup>1</sup> Recycling construction waste, decreasing energy consumption, using durable, sustainable, recycled materials, reducing water use for landscaping, providing on-site supportive services and creating transit alternatives.

### **III. REDEVELOPMENT IN IRVINE**

It has been nearly 60 years since James Irvine sold 4,000 acres of land to the United States Marine Corps for \$100,000. The nation was in the midst of World War II and the land quickly became the El Toro Marine Corps Air Station.

The El Toro Marine Corps Air Station served the country from 1945 through 1993, when it was decommissioned by the Federal government. In 2005, the land returned to private ownership. Lennar Corporation, one of the nation's leading residential and commercial developers, purchased the military property through an online auction for \$645 million. Proposed development plans include the creation of the first major metropolitan park in the United States built in the 21<sup>st</sup> century. The total acreage for public uses at the Orange County Great Park represents 83 percent (3,901 acres) of the total plan. The project includes a full spectrum of residential uses and densities, including a transit-oriented development adjacent to a Metrolink/Amtrak rail station. The Great Park also includes a golf course, cemetery, commercial, agriculture, education, research & development, sports, recreation and open space land uses. The residential component of the Great Park project (3,625 units - 792 acres or 17 percent of the total plan) will include affordable housing development in partnership with the City of Irvine.

The City and its developers have a long history of creating successful affordable housing projects and programs. Together they have established 4,400 affordable housing units dispersed throughout the City of Irvine. While the City will now focus significant attention to the pursuit of affordable housing at the Great Park site, it will also continue to pursue additional affordable housing projects throughout the City.

The return of the El Toro Marine Corps Air Station to private ownership, in combination with the formation of the City's first and only redevelopment project area encompassing the military base boundaries, will now provide a major opportunity for the continued development of affordable housing.

Redevelopment in California began in 1945, around the same time that James Irvine originally sold the land to the United States Marine Corps. At that time, redevelopment agencies were given the power to assemble property and receive tax increment revenue in order to meet the city's economic goals. Redevelopment agencies issue tax increment bonds to finance city improvements without using General Fund monies or raising taxes. Tax increment is derived from the increasing value of property created by the improvements made to property and the investments of the redevelopment agency.

In 1976, the State Legislature required that 20 percent of the tax increment funds generated from project areas must be used to improve the community's supply of affordable housing. Preliminary estimates project that the Irvine Redevelopment Project Area will generate a net present value of \$143 million in housing set-aside funds.



#### **IV. AFFORDABLE HOUSING**

There are two definitions of affordability in relation to housing. First, according to the U.S. Department of Housing and Urban Development, households making less than 80 percent of the area's median income and paying more than 30 percent of their income for housing are in need of affordable housing. Using this definition, a mother and father with two children living in Irvine making up to \$61,450 (80 percent of the Orange County 2005 median income) would qualify for affordable housing.

The second definition of affordable housing comes from the State of California Redevelopment Law. It states that households making less than 120 percent of the area's median income are in need of affordable housing. Using this definition, the same family stated above would meet the affordable housing requirement if their household income was up to \$90,850 annually.

#### **Housing Crisis**

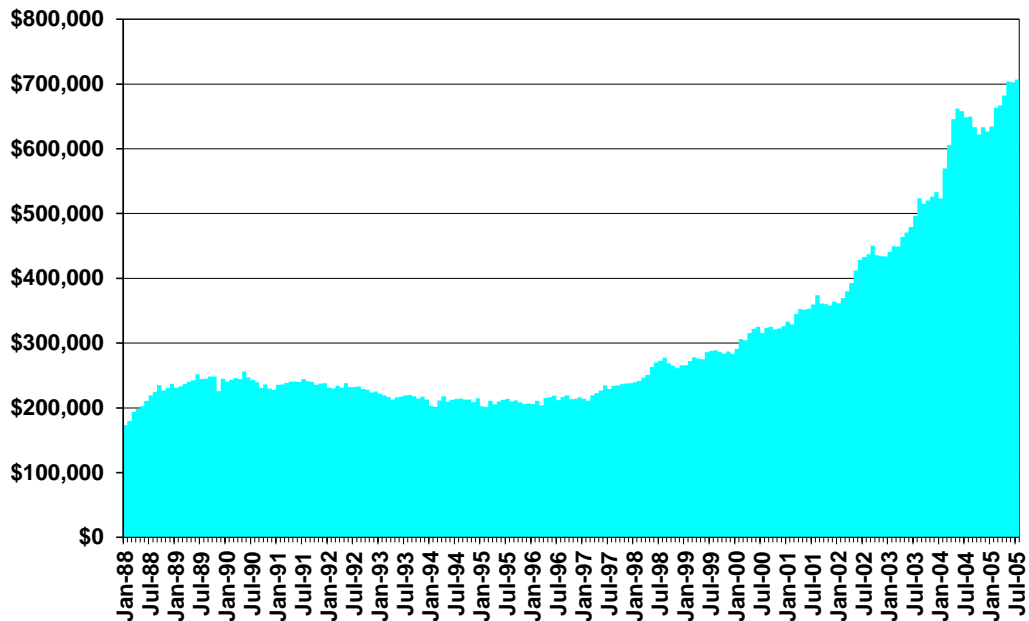
Change is one of life's guarantees. In 1950 the nation's average home was 983 square feet. Eighty-six percent of homes had only one story, 66 percent had only two bedrooms and 96 percent had 1.5 bathrooms or less. Skyrocketing housing prices were first identified as a "crisis" in California in the mid-1970s.

In October 1978, the median home price in the State climbed to \$64,424, a 24.6 percent increase in one year. In May 1979, the median home price in California hit an all time high of \$81,051.

Between the years 2000 and 2005, skyrocketing housing prices have also created a current crisis of affordability. As of July 2005, the median home price in the State of California was \$538,770, while in Orange County it was \$707,000 (Chart 1). In the City of Irvine, the median home price for a single family home sold in the last three months of 2005 was \$800,000, while the median home price of active single family homes available for sale was \$950,000. The condominium/town home sales prices are also above the State of California's single family sales prices. In the last two months of 2005, the median sales price of a condominium/town home in Irvine was \$560,000 and active homes available for sale had a median list price of \$635,000. Despite these alarming numbers, there is still hope for creating more affordable housing through implementing new and innovative programs.

## Chart 1 Median Price of Existing Detached Homes

Orange County, July 2005: \$706,820, Up 9.0% Y-T-Y

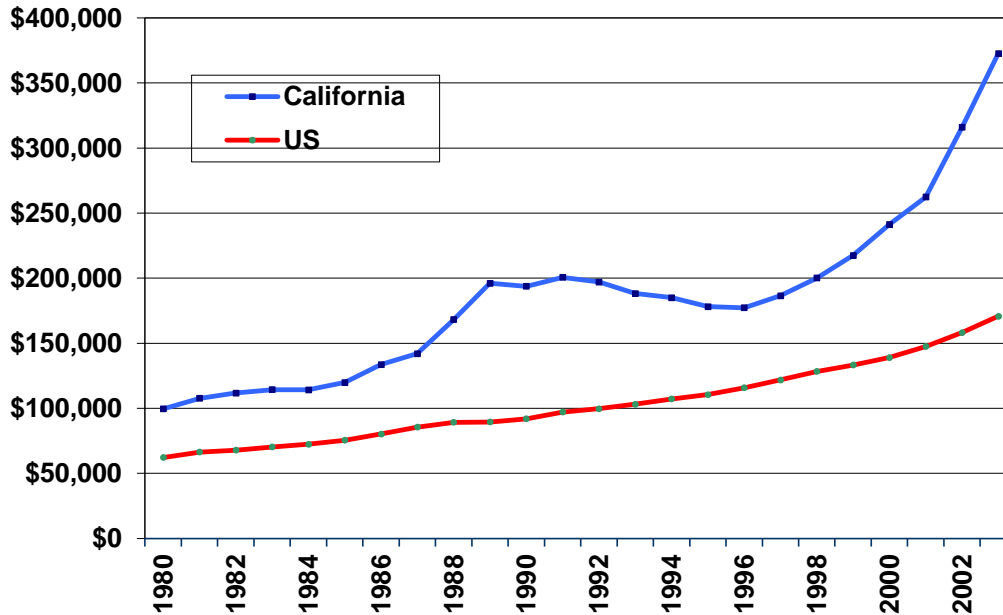


SOURCE: California Association of REALTORS®

Perhaps the greatest concern for cities attempting to offer affordable housing in their communities is the affordability gap, which continues to widen. Increases in the annual median home price are far out-pacing the increases in household income. This makes owning a home ever more difficult. On Chart 2, the California median home price increased from \$100,000 in 1980 to approximately \$375,000 in 2003, reflecting an increase of 375 percent.

## Chart 2 California vs. U.S. Median Prices

1980-2003



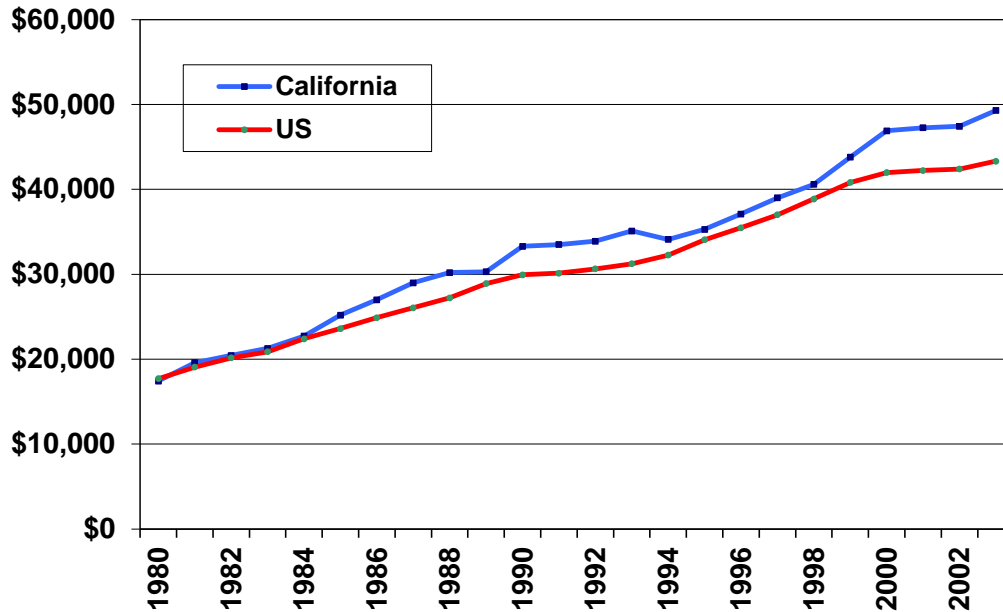
SOURCE: California Association of REALTORS®

The housing affordability crisis is visually apparent when comparing these rising home prices to the change in incomes over the same period. On Chart 3, that household income for the State of California and the United States rose from just under \$20,000 in 1980 to approximately \$50,000 in 2003, an increase of 150 percent, which is much lower than the percentage increase in housing prices. National statistics also show a more rapid increase in housing prices when compared to increases in income, but the situation in the California housing market is more extreme, leading to the affordable housing crisis that currently exists here.

### Chart 3 California vs. U.S. Household Income

1980 - 2003

Current Dollars



SOURCE: U.S. Census Bureau, CA Dept of Finance

Home ownership is not only problematic in California, but renting is also a struggle for many. A December 13, 2005 report by the National Low Income Housing Coalition (NLIHC) cited that California was the second least affordable area in the country.

NLIHC calculates what is called the Housing Wage, which is the hourly pay rate required for rent and utilities. Orange County has a Housing Wage of \$25.69 per hour necessary to afford a modest two-bedroom apartment. Since the mean hourly wage for a renter in Orange County is \$15.00, an affordability gap of \$10.69 per hour exists. This is the wage gap which exists that is necessary to afford a modest unit. An affordable housing advocacy group further cited that 57 percent of Orange County's renters do not earn enough income to afford a two-bedroom unit at the Fair Market Rate.

In December 2005, the California Association of Realtors estimated that prospective homebuyers would have to earn approximately \$171,000 per year to afford a median-priced single-family home in Orange County. This figure assumes that buyers used a 30-year, 6 percent fixed-rate loan and made a 20 percent down payment (\$141,364).

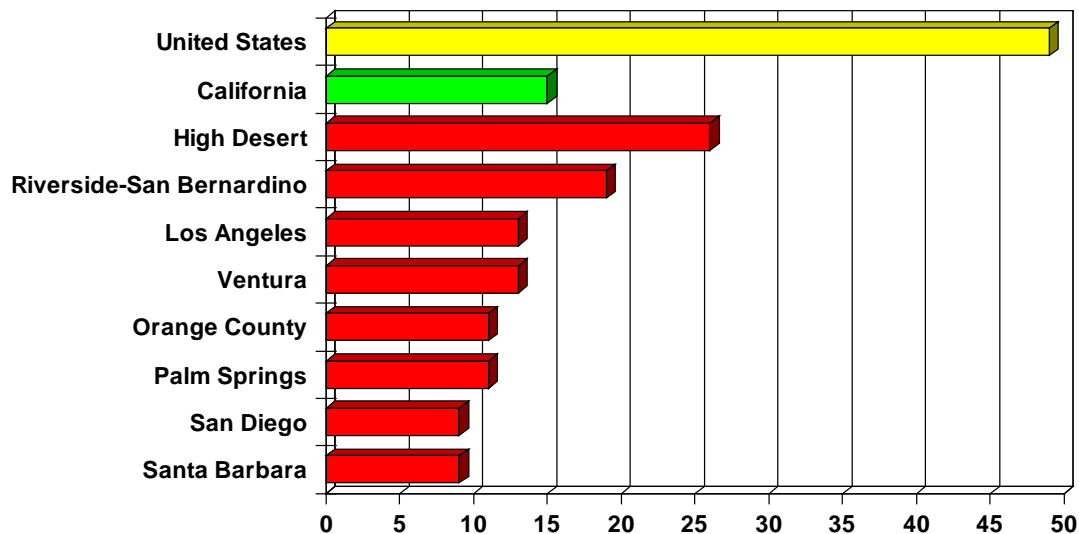
A community requires an adequate supply of all types of housing in order to address the variety of demand from various income levels. Multifamily units tend to accommodate people who desire to live near certain businesses or public facilities. Multifamily rental housing is needed not only for those people who are at certain stages of the housing spectrum, but also for those who desire to remain mobile for employment or other reasons.

The U.S. Census Bureau’s most recent American Housing Survey shows that more than 70 percent of families with incomes in the lowest quintile spend 30 percent or more of their income on housing, while an alarming 46 percent spend more than half of their income on home mortgage or rental payments. More information on the American Housing Survey can be found at [www.census.gov/hhes/www/housing/ahs/ahs.html](http://www.census.gov/hhes/www/housing/ahs/ahs.html).

In comparison to other states, California has a much smaller percentage of households who qualify to purchase a house, and Orange County has an even smaller percentage of qualifying households. Chart 4 reflects the percent of households living in a variety of cities and regions in California that would qualify to purchase the median priced home.

**Chart 4**

## Housing Affordability September 2005



SOURCE: California Association of REALTORS®

California Association of REALTORS®





In 2005, many households who work in Irvine found it nearly impossible to buy or rent homes in Irvine. This not only affects the current economics of the city but the future as well. Many young educated professionals are faced with the choice to either move out of state or continue to work in Irvine but live in the Inland Empire areas of Riverside and San Bernardino where housing is much more affordable. However, this causes greater strains on the existing regional transportation system and longer commutes leading to lower employee productivity, lower quality of life, increased pollution, etc.

Chart 5 below summarizes the different income levels and the rents and mortgages they can afford.

Chart 5

INCOME CATEGORY	ANNUAL INCOME	MONTHLY RENT	MAXIMUM MORTGAGE *
Very Low Income (50%)	\$38,400	\$946	\$60,100
Low Income (80%)	\$61,450	\$1,135	\$119,100
Moderate Income (120%)	\$90,850	\$2,081	\$270,000

\* Assumes State Redevelopment Law calculations, 3 bedroom unit, Gross Monthly Rent including utilities, 30 percent income towards housing for both renters and homeowners, 6.75 percent fixed interest rate, 30 year term and minimal debt and good credit, HOA \$300 per month.

These charts visually indicate that homeownership will be a very difficult and expensive component of the Irvine Housing Strategy. A strategy that both supports rental housing and includes a provision to transition into homeownership is ideal. Without a strategy to bring renters of affordable units into homeownership, renters will likely never make that transition.

The City of Irvine continues to view affordable housing as a vital part of the community infrastructure rather than a social program. Affordable housing is essential not only to the community of Irvine, but to the surrounding communities and businesses, contributing to the health of the regional economies now and in the future.

The City of Irvine has made significant community investments in education, culture, sports, and services that all contribute to a quality lifestyle for its present and future residents. Today, young professionals in Irvine are increasingly faced with the dilemma of affordable housing. A decade ago, they would have transitioned to be part of the home-owning middle class. Affordable housing offers opportunities for the younger generation to live in the same community as their parents and grandparents. It provides an option for them to stay in the area rather than move out of the area or out of the state. It also offers the opportunities for the aging baby boomers with limited income to live near their children who are residents of Irvine. Finally, affordable housing can be designed to serve the needs of Irvine residents with special needs.

When employees are unable to find affordable housing near their places of work, it gives businesses one more reason to relocate to areas with housing that is affordable to their employees. Aerospace engineers, school administrators, pharmacists, registered nurses and computer programmers are just a few of the occupations who don't generally earn enough to qualify for a mortgage in Irvine. Affordable housing in the City of Irvine will provide homes for these professionals and encourage businesses to remain in the City.

If the City of Irvine is to meet the housing challenges of tomorrow, it must adopt a coherent and focused set of policies and programs for its future. While Irvine has demonstrated an exemplary level of commitment to affordable housing in all categories, current circumstances demand that more must be done. Thomas Henry Huxley once said:

*“The rung of a ladder was never meant to rest upon, but only to hold a man’s foot long enough to enable him to put the other somewhat higher.”*

This report presents a Housing Strategy and Implementation Plan to provide future generations with affordable housing options which address the full spectrum of housing needs within the community.

## V. STRATEGY CONSTRUCT

Fortunately, the City of Irvine is uniquely positioned to address its future affordable housing challenges. The City has been successful in its past efforts to secure state and federal funds for housing. It will now have access to two new major sources of funds which will become available in future years.

- Inclusionary Zoning Ordinance Program: The City's inclusionary zoning ordinance program, adopted in 2003, which requires that 15 percent of all new units in Irvine be affordable. The value of the City's inclusionary requirement is estimated to be \$125 million with most of the funds generated in the next 15 to 20 years.
- Redevelopment Set-Aside Funds: Redevelopment 20 percent housing set-aside funds will be generated from the Orange County Great Park project area, which was established as a redevelopment area in 2005. It will generate approximately \$143 million over 40 years, with most of the funds generated by development in the next 15 to 20 years.

The City will, of course, also continue to qualify for other affordable housing funds from traditional sources, such as Federal Community Development Block Grants and HOME Investment Partnerships, State of California Housing and Community Development programs (including Proposition 46 Funds), Housing Tax Credits for specific projects, etc.

With respect to the two major sources of funds described above, the City currently provides "menu options" to developers for creating affordable housing to satisfy these requirements. Developers are given various alternatives:

- Build the affordable units under the City and Redevelopment inclusionary requirements (which, however, remain affordable only for a finite time period, currently 30 years);
- Pay the in-lieu fees to the City. However, if the City cannot use these funds in an expeditious manner, the value of these payments would decrease over time);
- Extend affordability on existing units or convert market units to affordable, and/or;
- Donate land of equivalent value as the calculated in-lieu fee.

From the City's perspective, land donations provide clear advantages over the other three options. First, vacant land provides the opportunity to build larger scale projects, achieving economies of scale, and through which affordable units can be integrated.

Second, land appreciates over time, so its value increases. Third, control of land provides the opportunity to create affordable housing which is permanently affordable.

There is also the issue of the City's ability to absorb and utilize large sums of money in an effective manner, particularly if land is unavailable, difficult to obtain, or rapidly increasing in value. The greatest opportunity for land donations will come from the negotiations with the land owner of the El Toro property, the Lennar Corporation. However, the same strategy can be applied to the future approvals of the remaining developments of The Irvine Company and other land owners and/or developers of land in the rest of the City.

**For all of these reasons, the City's affordable housing strategy should concentrate on land acquisition.**

### Proposed Structure

To expedite and manage land acquisition, the foundation of the Housing Strategy proposed for the City of Irvine involves the creation of a new entity, "The Irvine Community Land Trust," ("ICLT", or "the TRUST.")

The TRUST will enable the City to have an effective and clearly articulated strategy which can be communicated to developers for obtaining land and preserving the value of this asset. The TRUST will also enable the City to use its funds effectively and leverage them with other funds to create future affordable housing which will meet the City's overall affordable housing goals, as presented in the Vision Statement. Finally, and of significant importance, the TRUST will also ensure that the housing created will remain permanently affordable for generations to come without the need to add additional subsidy.

### What Are Land Trusts?

There are two types of land trusts: conservation trusts, which acquire and protect open space and agricultural land, such as the Irvine Ranch Land Reserve Trust; and community land trusts ("CLTs"), which focus on acquiring land for affordable housing and related uses and then facilitating the creation of permanently affordable housing on these sites.

The community land trust concept was first developed in the late 1970's. One of the earliest CLTs is the Burlington Community Land Trust, in Burlington, Vermont, which is today the largest in the country. Through the efforts of the Institute for Community Economics, the CLT concept was formally incorporated into Federal law in 1992. As of August 2005, there were 144 community land trusts operating in the United States, of which 15 were in California. However, only five of the California CLTs are active, and most are boutique operations operating without significant resources. In other parts of the country, notably in the East and the Midwest, CLTs have had more resources and have played a more significant role.

The TRUST would be the first CLT in California to begin operations with significant resources and its success could further demonstrate the validity of this concept for other cities in California and other states.

### Subsidy Recycling vs. Subsidy Retention

To understand how a community land trust works, it is helpful to understand the difference between the concepts of “subsidy recycling” and “subsidy retention.”

In the more traditional subsidy recycling model, the City provides subsidies to create affordable housing (for example, providing down payment assistance to first-time homebuyers) and then recaptures the subsidy plus interest (usually at below-market rates) when the homeowner eventually sells the home. Unfortunately, in areas experiencing rapidly rising housing costs, such as Orange County, the amount of subsidy recaptured is not sufficient to help the next family, requiring that additional funds be added in order to help the same number of families in the future.

In contrast, CLTs operate on the basis of subsidy retention. Since the CLT owns the land, it can control the price of the improvements (i.e. the dwelling units). When CLTs offer homeownership opportunities, subsidy is required to help the first family. After that, the increase in the price of the home is tied to a formula based on the increase in local incomes rather than the price of other comparable housing units. Therefore, when it comes time for the homeowner to sell, the price of the home will still be affordable to the next family without the need for additional subsidy from the City.

Through its ability to control the use and price of improvements through ground leases, the CLT subsidy retention model creates permanent affordability. The CLT model can also work with rental and special needs housing. It can also pursue a preservation strategy, purchasing affordability covenants for affordable units in existing developments. Therefore, the TRUST can address the full spectrum of housing needs in Irvine, as further explained in Section VII.

The CLT model is not the only one to operate on the basis of subsidy retention. Other subsidy retention models include limited-equity co-ops and condominiums (such as University Village in Irvine), mutual housing associations, non-profit-owned rental housing (such as rental projects owned and managed by Jamboree Housing in Irvine) and other deed-restricted homeownership models (such as the Habitat for Humanity program in Irvine). However, the other models are project specific, whereas a community land trust is a programmatic model which can be applied to many different projects.

CLTs work well in areas where housing prices are increasing, where the cost of land is high and where the scarcity or absence of land for affordable housing makes the development process difficult. This is why the CLT model is appropriate for Irvine.

## Organizational Structure

Community land trusts are separate charitable organizations organized under Section 501c3 of the Internal Revenue Service (IRS) code. To obtain non-profit status, an application must be submitted to and be approved by the IRS. This was previously a long and difficult process, but now that the CLT concept has been incorporated into federal law, and there are many other precedents, the approval process is easier. However, it will still take approximately six months or more for IRS approval, following the submission of the application and providing that the IRS raises no issues of concern and/or needs further clarification about the application.

As separate organizations, CLTs have their own Boards of Directors and staff. Community land trusts attempt to balance in their governance structure accountability to the city and the general public against accountability to the residents who live on CLT property. Therefore, the Board structure proposed initially for the ICLT is as follows:

- Two of the Board members will be appointed by the City;
- Two will (eventually) be residents of the ICLT properties (initially appointed by the Irvine City Council and eventually elected directly by the residents of the ICLT properties); and
- Three of the Board will be other residents of the community (defined here as the City of Irvine) who bring important skills or experience to the Board. These members will be initially appointed by the Irvine City Council and subsequently these seats will be filled by the Board of Directors.

The Board structure proposed above meets the intent of Federal law of actively involving public officials, community representatives and Trust residents in the governance structure of the ICLT.

The initial functions of the TRUST are to acquire and/or be the repository of land (or deed restrictions) and subsequently to develop and/or preserve affordable housing on that land or the preservation of existing affordable units. Since it is a separate organization, the creation of the TRUST allows the City to satisfy the State of California's requirement that cities not hold land over long periods of time. However, as the ICLT is being organized in Irvine, the City can be the temporary repository of any donated land and eventually transfer that land to the TRUST.

## Financial Support for CLTs

As a 501c3 public charity, the Irvine Community Land Trust would be eligible to receive property and funds from a variety of sources:

- Direct land donations from developers
- Redevelopment 20 percent Housing Set-Aside Funds

- Inclusionary in-lieu fees from developers
- CDBG Funds
- Home Funds
- Foundations
- Corporations
- Individuals
- Acquisition loans from the banks, community development financial institutions and others.

The Irvine Community Land Trust could also issue bonds in the future, using the City of Irvine as pass-through, should this be determined to be appropriate.

CLTs can become self-sustaining through fees they generate from land leases, developer fees and transaction fees (lease re-issuance, brokerage fees, etc.). Typically CLTs can become self-sufficient when they have developed and/or preserved 200 or more units (although they would need to seek additional resources to develop future affordable housing projects).

Some CLTs act as real estate development entities in addition to serving as land stewards. Generally, these CLTs are located in areas where there are no other non-profit housing developers. Since Irvine is a resource-rich community, it is recommended that the CLT work with the other non-profit affordable housing providers operating in Irvine and Southern California, with the TRUST playing more of a stewardship role, helping to make land available for affordable housing and then facilitating the development of housing projects with permanent affordability.

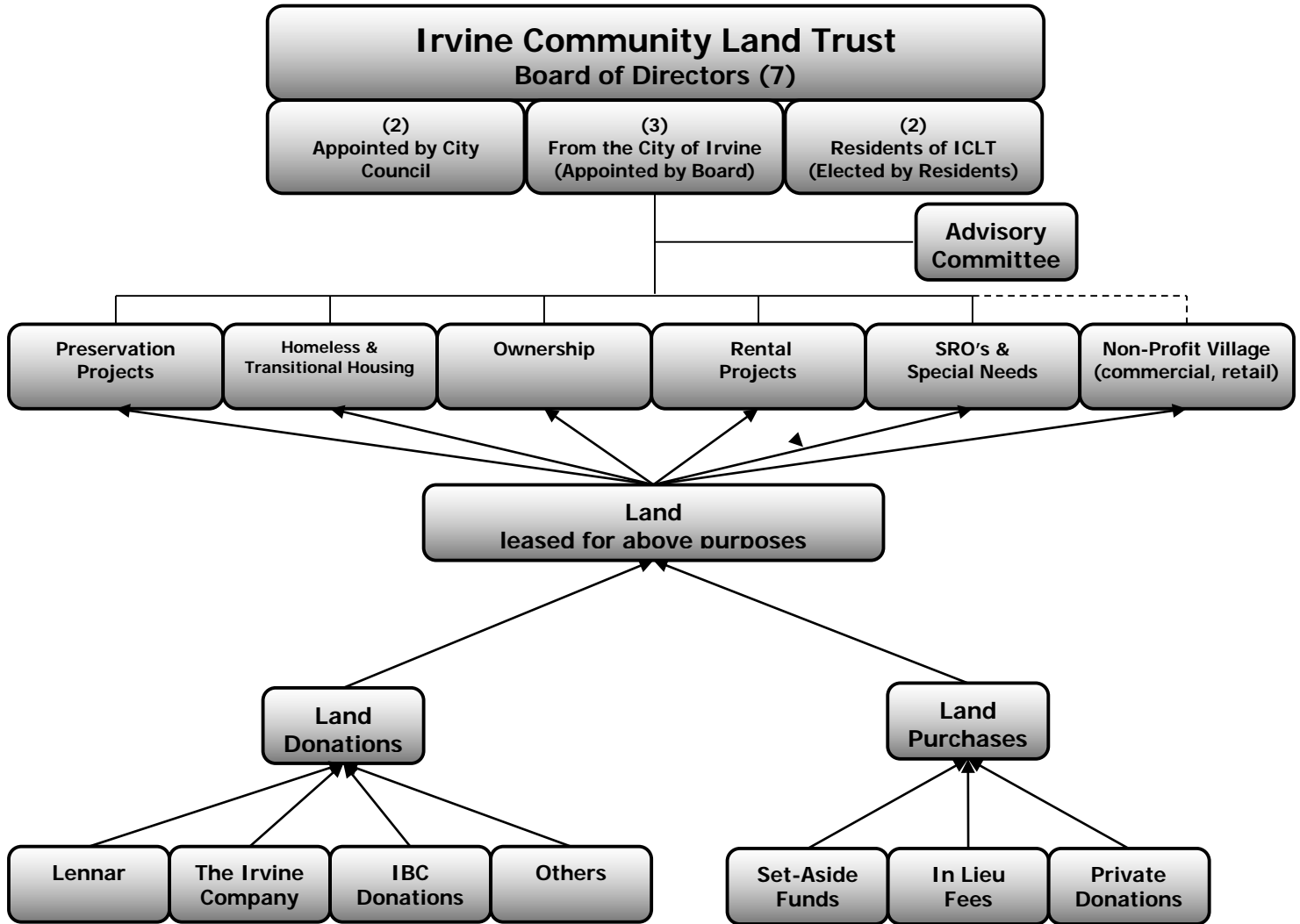
It should be noted that, by creating the CLT structure, the City will forego some future property tax revenue. Since CLT units are price-constrained to preserve affordability, future valuations will be lower than comparable market-rate units, resulting in lower property tax assessments. However, most cities with CLTs have viewed this to be of minor importance when compared with the advantages of permanent affordability.

### Design of the Trust

The creation of a community land trust in Irvine will provide the structure for the delivery of the affordable housing specified in the City's adopted Vision Statement. The chart on the following page shows schematically how the TRUST will be organized, together with the various housing programs, which will be offered.

As a method for satisfying their inclusionary requirements, the Lennar Company, The Irvine Company, and private landholders in the Irvine Business Complex (IBC) will be encouraged to make land donations to the ICLT. In addition, land can also be purchased by the TRUST using Redevelopment 20 percent Housing Set-Aside funds, In-Lieu Fees paid by developers who elect not to (or are unable to) donate land, and tax-advantaged private donations to the TRUST since it operates as a public charity.

By owning land, the TRUST can negotiate with affordable housing developers to create affordable units and other supportive housing projects and programs which will address the full spectrum of housing needs in Irvine.



Note: Initial Board Members will be appointed by the Irvine City Council



In summary, here is how the TRUST will address each of the Vision Statement priorities:

- Preservation: Using contributed funds, primarily from inclusionary in-lieu fees and 20 percent set-aside funds, the TRUST can enter into negotiations with apartment owners to purchase covenants which will permanently restrict the rent levels and preserve the affordability of existing affordable units. In addition, covenants for affordable units may be donated to the TRUST directly by apartment owners to fulfill their inclusionary requirements for new projects.
- Homeless and Transitional Housing: The TRUST can negotiate with developers to create facilities which can be leased to homeless and transitional housing providers. The service providers will have access to outside sources of support to operate their programs, which will enable them to make rent and/or lease payments to the TRUST.
- Homeownership: The TRUST will negotiate with developers to create affordable homeownership projects for families, and then use City funds leveraged with other funds to provide direct assistance to families who purchase these units (further discussed below). As explained above, the future appreciation of the units will be tied to the increase in incomes in Irvine, thereby permanently preserving their affordability.
- Faculty and Staff Housing: Using the homeownership model described above, the TRUST will partner with Irvine's colleges and universities to create affordable home ownership opportunities for university faculty and staff, with direct subsidies provided by the colleges and universities to qualifying families.
- Rental Housing: The TRUST will negotiate with developers to create additional affordable rental housing in Irvine. The units would be managed and maintained by the non-profits, and monitored by the TRUST. If any problems develop that cannot be resolved, the TRUST would have the right to replace the non-profit.
- SROs and Special Needs: Similar to the process described above for creating homeless and transitional housing, the TRUST will negotiate with developers to build Single-Room Occupancy and Special Needs projects (serving seniors, developmentally disabled, very-low income families, people living with AIDS, supportive housing, and mobile home parks). The projects would be run by the appropriate service providers, renting or leasing the land from the TRUST.

- Non-profit Village and Other Community Space: While not part of the vision, the TRUST could create commercial space for community purposes, and then lease that space at affordable rates to non-profits for community use. Other CLTs (such as the Burlington CLT referenced above) have developed commercial space as a part of their strategy to diversify their holdings and cross-subsidize their affordable housing projects with income derived from commercial leases.

Each of the above programs is discussed in more detail in Section VII.

### How the TRUST Will Attain Self-Sufficiency

Like all other for-profit and non-profit businesses, community land trusts require initial seed capital to begin operations, including organizational funds and staffing support. As described above, seed capital for the TRUST will come primarily from the City, and the prime source will most likely be the Redevelopment Agency's 20 percent housing set-aside funds. Land donations will follow as a result of developer negotiations to satisfy inclusionary requirements.

As described above, CLTs earn fees to sustain their operations from lease fees on their land, lease re-issuance fees, marketing fees and service/transaction fees. The Board of the TRUST will create a business plan with the goal of obtaining self-sufficiency as soon as possible. Other CLT organizations operating in similar fashion to the proposed TRUST have achieved financial stability when they have owned and/or leased 200 or more units. Given the resources available in Irvine for affordable housing, it is expected that the TRUST can achieve self-sufficiency in a relatively short timeframe, perhaps as soon as two to three years after obtaining its first land parcels.

All of the above issues will be addressed in the TRUST's bylaws and preliminary business plan which will be adopted by the TRUST's initial Board of Directors, following approval by the City.

### What If the TRUST Fails?

Since the City of Irvine will be establishing the TRUST and transferring resources to it, including land and money, for its affordable housing programs and projects, the City will need to insure that the TRUST is successful. When the City transfers (or causes to be transferred) property to the TRUST, the property is transferred under a grantee agreement which includes performance standards. The City then monitors the TRUST's performance, which is facilitated because city officials will sit on the Board and the Trust will be required to provide periodic reports to the City on its activities and finances. Under the performance agreement, if problems occur which cannot be resolved, the City can step in temporarily and take over the lessor function of the TRUST and restructure the organization, with the intent of correcting the problems. The

objective is not for the City to operate the TRUST over the long term, but instead to correct the problems and restore control to the TRUST.

Given the situation and circumstances in Irvine, the creation of the Irvine Community Land Trust will be the foundation of the City's affordable housing strategy.



## VI. DESIGN STANDARDS

The City's Vision Statement specifies that "design standards will incorporate green design/sustainable development and accessible development features to improve affordability and contribute to resource conservation and accessibility in the community." The City of Irvine has adopted a "Green Homes Program" and is allocating resources to a variety of progressive programs to expand energy efficiency, conservation, waste reduction, smart growth and sustainable development.

With respect to affordable housing, the incorporation of these standards begins with the architectural design of the project. While specific financing sources and/or commitments may not be available at the start of construction, projects need to be designed initially to incorporate as many sustainable design and energy efficient features as possible. Financing sources can be identified later, ideally during construction. If sources are not available, the project design enables these features to be retrofitted later on. Most non-profit affordable housing developers are familiar with this process.

### Green Design

"Green Building" features can include the following, depending on the individual project:

- Planning, Design and Development:
  - Select a contractor willing to explore sustainable alternatives.
  - Utilize U.S. Dept. of Housing & Urban Development's PATH program.
  - Investigate special energy conservation programs offered by local utilities.
  
- Site and Community:
  - On-site construction waste management.
  - Higher-density development, preserving more open space.
  - Provision for storage and collection of on-site recyclables.
  - Providing on-site services space, including computer training center for rental developments.
  
- Foundation and Structural Frame:
  - Using 50 percent fly-ash content "shotcrete" in mat slab foundation.
  - Using 15 percent fly-ash content shotcrete for a majority of the structural walls (requiring a lower water-cementitious material ratio).
  
- Exterior Finish:
  - Fiber Cement siding.
  - In infill projects, reusing (or recycling) existing façade, if feasible.
  
- Electrical:
  - Use of fluorescent fixtures to reduce energy consumption.
  - Cat-5 internal wiring.

- Appliances:
  - Use of energy-efficient appliances (Energy Star).
  - Building design which allows for natural ventilation, reducing need for air-conditioning.
  
- Photovoltaic:
  - Use of solar energy to provide alternative heating and cooling systems to reduce energy use.
  
- HVAC:
  - Baseboard hydronic heating.
  - Vent kitchen and range hoods to the outside to improve indoor air quality, prevent overheating and excess moisture buildup.

There are and will continue to be additional green design measures developed and available for use. Of course, all green building measures will not be appropriate for all projects, and it is necessary to evaluate the use of these measures on a case-by-case basis. Budget and site constraints may limit the use of some of these features, and less-expensive alternatives may be necessary on some cases. As noted above, it is important to incorporate the appropriate possibilities into the initial design of the project, hire contractors familiar with these applications, and continue to explore specific financial assistance as the project financing structure progresses through construction.

### Accessibility/Universal Design

Like green design and sustainable features, accessibility features should also be considered in the initial design of the project. In the past, these features were confined to senior and special needs projects. More recently, it has become common to include accessibility features and/or designs that accommodate retrofitting in new rental and homeownership projects. These standards are commonly referred to as “universal design” standards.

If the project’s initial occupants are not in immediate need of these features, the project design can still reduce the subsequent costs of retrofitting the living units to accommodate these features. Universal design/accessibility features can include:

- Exterior access to the living unit (ramps, elevators).
- Exterior and interior doors to accommodate wheelchair access.
- Grab bars in the hallways, kitchens and bathrooms.
- Bathing facilities to accommodate wheelchair access.
- Appropriate height of appliances and other fixtures.
- Closet hardware such as levers and door handles.
- Other features.

## Sustainability

Sustainability features for projects can include the following:

- Energy and Atmosphere:
  - Decrease occupants' individual energy consumption.
  - Decrease energy costs for common areas of the project.
  - Reduce off-gassing of building materials into the environment.
  - Improve insulation and use low-emissive windows to improve heating/cooling system performance.
  
- Material and Resources:
  - Integrate recycled-content building materials.
  - Incorporate durable and sustainable materials to decrease long-term maintenance.
  
- Water:
  - Reduce water use for landscaping with drought-tolerant plants.
  - Flow control mechanisms for showers, toilets, faucets.
  
- Health and Safety:
  - Promote healthy indoor air quality by specifying low-VOC materials and finishes.
  - Promote ducting systems which reduce leakage.
  
- Site and Community:
  - Transit-oriented locations.
  - Reduce reliance on automobiles (car-pooling, public transit).
  - Create durable and sustainable development designed to fit the needs of special needs tenants.
  - Support a vibrant residential community with supportive services to improve the economic and social welfare of residents.

## Implementation of Standards

To ensure that these standards are prioritized, the following actions are recommended for consideration:

- The City could adopt the California green building guidelines as an official "reference guide."
- The City could develop a rating system which gives additional points for projects with sustainable development/green design components. Based on the point system, and given the availability of funds, the City could offer financial incentives, including grants, special financing, technical assistance, fee waivers and rebates.

- The City could also offer non-financial incentives, including streamlined permitting, density bonuses, etc.
- The City could promote “energy audits” of residential and commercial buildings and provide education and information regarding “green rehab” and other retrofit energy conservation opportunities in existing structures.
- The City could form a “green building team” to be selected by the Planning Manager, consisting of city staff that represent key building-related functions, and train them in promoting and/or enforcing the above techniques.
- The City could offer consumer education to create demand for green homes.

In pursuing the strategy, City staff should keep abreast of green design developments by maintaining contact with non-profit advocacy groups such as “Global Green USA” in Santa Monica, “Build It Green” in Berkeley, and with Ted Flanigan, Managing Director of The Energy Coalition, in Irvine.





## VII. PROGRAMS TO IMPLEMENT THE STRATEGY

This section focuses on the various housing programs recommended by the Housing Task Force, followed by an analysis of their effectiveness and suggestions for modifications and implementation under the community land trust structure.

### Homeownership

The City's Vision Statement identifies the creation of homeownership opportunities as a priority for the housing strategy and recommends "*creating equity-building opportunities for first-time homebuyers by facilitating the renter-to-owner transition process and increasing the amount of for-sale affordable housing.*" Homeownership offers tremendous economic benefits. It is a powerful tool for building economic stability as well as individual and family self-esteem. In fact, homeownership is the single largest expenditure and the largest source of wealth for most families and individuals. It is no surprise that the nation's housing sector has been the cornerstone of economic activity over the past several decades.

Aside from being economically sound, owning a home also provides social benefits. It gives individuals and families a stronger stake in their communities, leading them to care more about their environment and making them more likely to act in ways that benefit both their families and the neighborhoods in which they live.

As discussed above, buying a home is unfortunately out of reach for many low-to-moderate income families in Orange County and particularly within the City of Irvine. California real estate has escalated an average of 17 percent every year for the past five years, while over the same period of time real personal income has increased less than two percent on average per year.<sup>11</sup>

Many households, particularly low income families, minorities and younger households are unable to buy a home due to the following barriers:

1. High property costs.
2. Insufficient funds for down-payment & closing costs.
3. High monthly payments compared to income.
4. High existing debt
5. Poor credit.

As a result, affordable homeownership programs for income-eligible households are becoming increasingly difficult to implement within the City of Irvine. To keep the flow of first-time buyers into homes, lenders have become increasingly creative about mortgage programs. Many buyers can make a purchase with relatively little or even no down payment. However, this translates into a higher principal loan amount and therefore a larger monthly housing payment. These households are then faced with

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<sup>12</sup> Source: California Association of Realtors.

interest-only and adjustable-rate mortgages that start with very low monthly payments but can soon increase beyond affordability, putting these families at risk of foreclosure.

While there is no one standard homeownership program model that works universally, the purpose of this section of the Housing Strategy is to analyze the existing programs and suggest modifications through the use of the community land trust structure that can lead to the achievement of the homeownership goals of the City of Irvine.

### Existing Homeownership Program

The City of Irvine currently uses a portion of its federal Community Development Block Grant (CDBG) funds for a First Time Home Buyer Down-Payment Assistance Program (DAP). The DAP was designed to assist families earning up to 80 percent of the median income in purchasing a home in the City of Irvine. Eligible program participants receive down payment assistance of up to \$110,200 (25 percent of a maximum sales price of \$440,800) in the form of a silent second, low-interest loan. Applicants are required to have sufficient assets to provide a minimum down payment equal to one percent of the purchase price of the home, plus closing costs. No payments on the City's loan are required until repayment of the first mortgage, sale or transfer of the property, or when equity is taken out of the home, at which time the City will recapture the loan amount with interest.

There are three priority groups qualifying for assistance. The first priority group includes full-time teachers in the Irvine Unified School District, full time employees of the City of Irvine or full time employees of the Orange County Fire Authority working in the City of Irvine. The second priority group contains households with two or more individuals working or living in the City of Irvine with a child at home. The third priority group includes two parent households with at least one child at home.

Eligible properties in the DAP are composed of new or existing single-family homes and condominiums. The property must meet local code, termite and lead-based paint requirements and pass a third party inspection. Furthermore, the program participant(s) must occupy the property as their primary residence.

Participating lenders designated by the City screen and qualify program participants for home purchase. Next, the lenders provide a 30 year fixed-rate first mortgage product that can be combined with the program's second mortgage loan. The program participant must meet credit and underwriting criteria established by the participating lender providing the first mortgage loan.

One of the significant challenges of the existing DAP is that the maximum household income is capped at 80 percent of County median income. For a household of four that equals \$61,450. Since the DAP requires the first mortgage to be a 30-year fixed interest loan, that income translates into a purchase price of slightly less than \$400,000.

A study of recent real estate activity within the City of Irvine reveals that very few properties are ever available below \$400,000 (none were available in January 2006). Consequently, finding a qualified home buyer with enough income, as well as a home with a sufficiently low purchase price is a considerable challenge for the existing DAP. Therefore, the DAP, while extremely generous made only one loan from January 2005 to February 2006.

Using tax increment funds from the redevelopment project area would allow the DAP to qualify homebuyers up to 120 percent of median income. While this seems like an appropriate use of these funds, most of the additional funding available to leverage the DAP is tied to the 80 percent maximum household income. Consequently, any co-mingling of tax increment set-aside funds and other sources would most likely still result in an 80 percent maximum household income. There may be exceptional instances when funding a homeownership project and/or unit can be accomplished entirely with set-aside funds. In this case the DAP could be made available for higher income residents, but this would also result in very low leverage of these funds, so fewer homeowners could be served.

#### Orange County Area Housing and Finance Agency Lease to Purchase Program

The City of Irvine and other cities within Orange County have formed a Joint Powers Authority in order to offer an innovative home ownership program. The Orange County Area Housing and Finance Agency (OCAHFA) is a non-profit, regional housing agency created through the membership of local governments in Orange County. OCAHFA is charged with expanding affordable housing and economic development opportunities. The government-sponsored "Public Lease-to-Purchase" program allows a participant to select a home. OCAHFA then purchases that home, and the participant subsequently takes over the monthly payments.

Public Lease-to-Purchase is one of the few affordable housing initiatives available to moderate income households. It is particularly attractive to those who can afford the monthly payment for a home and have a good rent history, but don't have the down payment, credit scores or finances to qualify for the entire loan. Public Lease-to-Purchase allows participants to get into the home today with very little cash, lock-in the purchase price, and use the lease-purchase period to establish or reestablish credit. Once the participants exercise the purchase option, they become the full owner of the home.

Public Lease-to-Purchase offers qualified participants a 30-year rate and term-reset mortgage with no down payment. The program pays all of the closing costs. The participant (or lease-purchaser) makes a lease payment equivalent to the mortgage payment plus taxes and insurance. Since the lease payment is used to pay down the mortgage, the participant effectively builds up equity during the lease period.

Participants in this program can also use the lease-option period to repair their credit. Lease-purchasers can exercise their purchase option any time after the first 12 months

of the initiation of the lease by assuming the existing mortgage or by obtaining new financing. Participants can choose any home, new or existing, including single-family homes, condominiums and town homes.

Public Lease-to-Purchase is a new home buying resource and does not use or depend on existing government subsidies or conventional lending programs. This is very important for local governments with stretched resources. Public Lease-to-Purchase also expands business opportunities for mortgage and real estate professionals as it opens up the home buying market to more households.

### Affordable Housing Clearinghouse

In 1990, an alliance called the Orange County Community Reinvestment Act Coalition was formed, comprised of community organizations, non-profit housing corporations, public agencies, non-profit housing shelters and advocates for lower income households. The Coalition was formed following the enactment of the Community Reinvestment Act, which enacted a legislative requirement that lending institutions meet the credit and affordable housing needs of low- and moderate-income households living in the localities from which they draw deposits.

The Coalition became the Orange County Affordable Housing Clearinghouse in August 1991. The Affordable Housing Clearinghouse is a network of lenders, community groups, and public agencies dedicated to the creation of quality affordable housing. The primary purpose of the Clearinghouse is to facilitate the financing of community development projects that meet Community Reinvestment Act criteria. Individual financial institutions were invited to become members of this organization with the incentive of participating in the financing opportunities identified. By December 1991, nearly \$100,000 of capitalization costs had been raised from the lending institution members and an Executive Director had been hired. Shortly thereafter, the Clearinghouse funded its first loan and began processing over \$30 million worth of affordable housing loan applications.

Working together with non-profits and lenders, the Clearinghouse provides decent housing for low- and moderate-income families, provides services to distressed communities and people with special needs, and helps to develop a well-prepared work force. By leveraging the resources of their lender member affiliates, the Clearinghouse is able to provide even more financing opportunities for low-income communities.

To promote homeownership, the Clearinghouse provides mortgage loans with no down payment and flexible credit requirements to low- and moderate-income families. In addition, to assist these families in preparing to purchase a home, the Clearinghouse provides homebuyer education as well as credit counseling. It has already funded nearly \$40 million in mortgage loans and has counseled hundreds of families.

The Clearinghouse is funded by contributions from lender members. When a project is funded, the Clearinghouse receives a small fee, as a percentage of the total loan

amount. In addition, they receive an application fee to help cover the cost of processing the application.

### Neighborhood Housing Services of Orange County

Neighborhood Housing Services of Orange County (NHSOC) is one of many local NeighborWorks organizations around the country affiliated with the Neighborhood Reinvestment Corporation (NRC). NRC is a public non-profit that was congressionally chartered to revitalize neighborhoods in cooperation with local financial institutions. NHSOC was formed from a merger of NHS of Santa Ana and NHS of La Habra, and has served Orange County for 26 years. Its mission is, *“revitalizing communities in partnership with local residents, financial institutions, the business community, and local government.”*

NeighborWorks organizations provide homeownership assistance through “Full-Cycle Lending,” a system that enables lenders, government agencies and NeighborWorks organizations to work together to help families achieve homeownership. They do this through promoting home ownership, providing home purchase and home improvement loans, constructing and rehabilitating single and multi-family homes, as well as facilitating the development of resident community leaders.

The NeighborWorks Campaign for Home Ownership helped NHSOC to become Orange County’s premier program for first time homebuyers. Over 500 families have been assisted in purchasing their first home through NHSOC and more than 1,000 others are completing their homebuyer education program. NHSOC plans to continue its efforts promoting homeownership and expanding opportunities for first time buyers. They accomplish this predominantly by sponsoring Homebuyer Clubs and Individual Development Accounts (IDA) savings programs, working with businesses to develop employer assisted homebuyer programs and working with lender partners to provide mortgage programs which work in conjunction with down payment assistance programs.

The NHSOC NeighborWorks HomeOwnership Center is designed to increase homeownership opportunities for people who have traditionally been excluded from those opportunities. It offers a program that matches buyers’ savings, employs flexible credit requirements, and reduces closing costs. In addition, NHSOC uses local banks, insurance companies, realtors, and other housing professionals to assist in the training of first-time homebuyers.

There are various levels and quality of homeownership education. The poorest level of education is represented by the prospective homebuyer watching a video in a lender’s office. With this type of training, there is no interaction between the prospective homebuyer and a housing professional. The NHS program offers a comprehensive homeownership education and counseling program which includes the following:

1. Outreach: Many potential homebuyers, particularly members of traditionally underserved populations, are unaware that homeownership is a possibility for

them. Outreach can be used to inform the community about homeownership opportunities and available programs.

2. Pre-Purchase: Pre-purchase education and counseling teaches homebuyers about the steps involved in purchasing a home.
3. Post-Purchase: Post-purchase education and counseling helps homebuyers handle on-going responsibilities of homeownership. Topics include monthly budgeting, how to handle a financial crisis, how to avoid predatory lenders' refinancing schemes, and general home maintenance and repair.
4. Intervention: Intervention counseling is conducted when a homebuyer has difficulty keeping up with scheduled mortgage payments.

It has been proven that these services materially increase the success of first-time homebuyer programs which are focused on low- and moderate-income families. The City of Irvine's program should include all of these components, discussed later under "Restructuring Recommendations.

#### Habitat for Humanity of Orange County

Habitat for Humanity of Orange County is an affiliate of the Habitat for Humanity International, a non-profit, ecumenical Christian housing ministry. Its goal is to eliminate poverty, housing and homelessness from the world and to make decent shelter a matter of conscience and action.

Habitat invites people of all backgrounds, races and religions to build houses together in partnership with families in need. Through volunteer labor and donations of money and materials, Habitat builds and rehabilitates simple, decent houses with the help of the homeowner (partner) families. Habitat houses are sold to partner families at no profit, financed with affordable, no-interest loans. The homeowners' monthly mortgage payments are used by Habitat to build additional houses.

Habitat is not a giveaway program. In addition to a down payment and the monthly mortgage payments, homeowners invest hundreds of hours of their own labor, or "sweat equity," into building their house and the houses of others. Habitat believes that owning a safe and decent home is a foundation from which families grow strong and that it is providing the blueprints and tools for revitalizing communities, neighborhoods, families and lives.

To qualify for the Habitat program, families must:

1. Have a steady income.
2. Live in sub-standard housing.
3. Be legal residents of the United States.
4. Agree to attend classes on budgeting, home maintenance and neighborhood/community relations.

In order to qualify for the purchase of a Habitat home, families are required to:

1. Invest 500 hours of “sweat equity” to build their own home or to help another family build their home.
2. Pay a 1 percent down payment and closing costs.
3. Pay a long term, zero-interest mortgage.
4. Maintain their homes.

One Habitat project has been successfully completed in Irvine, consisting of 12 homes, and Habitat of Orange County has expressed an interest in doing future projects in the City.

### University Hills

A similar example of a program which creates permanently affordable homeownership is the University Hills project, located on the campus of the University of California at Irvine. The development is within walking distance of academic facilities, shops, restaurants, parks, and entertainment. There are currently 738 homes and 140 rental units with varying sizes and styles in University Hills. When complete, the community is expected to cover over 200 acres and have 1,100 for-sale and rental residences. Through a special marketing process and long-term ground leases, the program provides an opportunity to share in the personal and financial benefits of homeownership. Homes remain affordable and retain their University-oriented environment through a number of resale requirements.

All homes in University Hills are located on lots owned by The Regents and leased through the Irvine Campus Housing Authority ("ICHA") to individual homeowners. The land is subleased to the home buyer who elects one of three lease payment plans. The plans vary in the amount of monthly payment and percentage of appreciation paid upon sale as deferred rent. Certain requirements are imposed upon the sale and resale of a home to assure that University Hills' homes remain available and perpetually affordable to members of UCI's academic community. The following criteria apply:

- A resale home must first be offered to the University, the faculty and then the staff.
- The resale price of a home is restricted to the sum of the seller's initial purchase price adjusted by the increase (if any) in certain indices, plus the appraised value of capital improvements.
- If the circumstances of a homeowner's University employment change, he or she may no longer be eligible to own a home in University Hills.
- A home in University Hills may only be used as a principal residence.



University Hills is a good example of how subsidy retention will create permanently affordable home ownership opportunities. However, the structure is unique to this project, and there is a separate management structure (the ICHA, mentioned above). A key advantage of permanently affordable homeownership offered through the ICLT is that many different projects can be built and managed under the same structure.

### Employer-Assisted Housing

Employer-assisted housing programs are created and funded by employers who have difficulty recruiting or retaining employees because of a lack of affordable housing. These programs generally operate in job-rich high-cost housing markets like the Silicon Valley in Northern California, which established a Housing Trust Fund many years ago to help alleviate the problems associated with the high cost of housing.

There is currently an effort underway to do the same thing in Orange County. Employers in Orange County and Irvine have become painfully aware of the crisis of affordability. To help address this crisis, they initiated a Housing Trust Fund in 2005, and are now starting to raise money. The TRUST and Irvine Housing Staff will work closely with the Orange County Business Council (OCBC) to assist in this effort, since this will provide another source of leveraging for City funds.

The secondary mortgage market has addressed this business concern by offering a new national product. With the new product, each transaction includes a traditional first mortgage, supplemented by employer assistance in the form of a grant, loan, or loan guarantee, which can be used toward the down payment, closing costs, or monthly mortgage payment. With this type of loan product, the employer may provide down payment assistance (in addition to the employee's minimum down payment) or may finance closing costs. When employer-assisted housing is combined with a community lending product, it is subject to income limits imposed by the additional funding source.

Neighborhood Housing Services of Orange County is currently ready to implement a form of employer-assisted housing by utilizing its Individual Deposit Account ("IDA"). The IDA is money contributed by an employer to NHSOC to be used by their employees to make a down payment on a house.

### Homeownership Program Restructuring Recommendations

It is recommended that the City phase the current down payment assistance program and incorporate its down payment assistance program ("DAP") into future homeownership projects with permanent affordability created through the ICLT.

Incremental changes to the existing down payment assistance program will not create permanently affordable housing. The existing DAP produces affordable payments to the homeowner, but repayment of the City's DAP loans will not be sufficient to help the same number of families in the future, as explained above (see Subsidy Recycling vs.

Subsidy Retention). Homeownership created through the ICLT will create permanently affordable housing.

As noted above, the foundation of the Housing Strategy is the creation of the TRUST, which will receive land donations from developers seeking to fulfill their inclusionary requirements. A portion of the Trust land will then be developed into ownership housing, with the Trust continuing to own the land and leasing it to the new homeowner, thereby reducing the purchase price. The Trust retains the right to repurchase the improvements (i.e. the home) at a price determined by a formula, which is designed to keep the home permanently affordable. The homebuyer takes out a “leasehold mortgage” to purchase the house, with down payment assistance from public funding and/or other sources.

With leasehold mortgages, the homebuyer’s lender will originate a first *leasehold* mortgage loan to the family to purchase the home. If the lender follows Fannie Mae’s underwriting standards, Fannie Mae will commit to purchase the leasehold mortgage, providing a secondary market for these loans which insures that future leasehold loans will be available. These mortgages can be combined with any of the traditional community lending products, to increase affordability.

The City will need to seek the maximum possible leverage for its funds to meet the 10 percent (9,700 units) goal, and leverage is particularly important for the homeownership program since the subsidies per family are higher than the other affordable housing programs. When new homeownership opportunities are created through the TRUST, the City will need to partner with others in order to make its money go further.

The ICLT will focus on the development of the new affordable homes, partnering with both non-profit partners, such as like Jamboree Housing Corporation and BRIDGE, and for-profit developers, such as The Lennar Company and The Irvine Company. The City should also partner with other programs to further leverage its new homeownership programs offered in conjunction with the ICLT. Below are specific recommendations:

- The City should explore offering the Lease-to-Purchase program in conjunction with its homeownership program.
- The City should partner with the Affordable Housing Clearinghouse to educate lenders about the TRUST and identify lenders willing to make leasehold mortgages.
- The City should discuss with Habitat of Orange County the possibility of doing future Habitat programs on TRUST land.
- The City and the ICLT should partner with university partners to develop a new homeownership project in which the down payment was primarily funded by university partners, perhaps with a small City match.

- The City and ICLT should participate in and support the efforts of the Orange County Business Council to raise the capital for its Housing Trust Fund which could be a source of capital to further leverage the City's homeownership program.
- The City should partner with NHS of Orange County to tap into its expertise in home buyer education and counseling, and explore ways to utilize down payment assistance funds available to them for TRUST owned properties.

Through the above partnerships, the City of Irvine and TRUST can leverage its funds and also offer homebuyer education and counseling. The result will be a first class first-time homebuyer program which expands ownership opportunities in Irvine and has the maximum possibility of success.

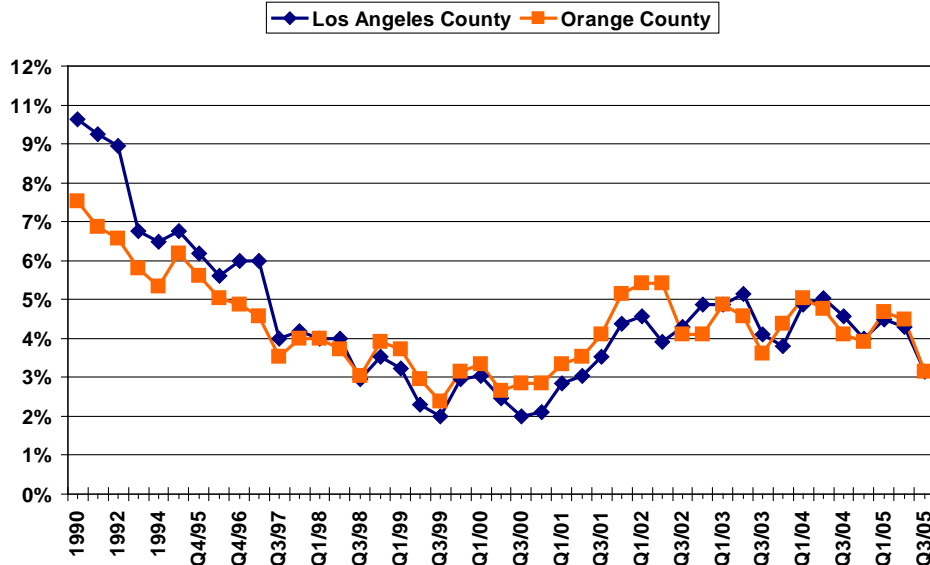
### New Rental Housing

The City of Irvine's Vision Statement has identified "facilitating the development of additional rental housing" as one of its priorities. Chart 6 on the following page depicts vacancy rates for apartments. The chart indicates that both LA and Orange County have seen a steadily decreasing vacancy rate among apartments in the past decade. In 1990 it was as high as 7.5 percent but steadily decreased to a low of 2.5 percent in 2000. Between 2000 and 2002 the rate actually increased slightly to 5.5 percent and now has decreased again to 3 percent in the 3rd quarter of 2005. Most developers of apartments plan for a 5 percent vacancy rate in their financial projections. Anything less than 5% is considered to be a very tight market and generally associated with rising rents.

Chart 7 on the following page depicts rental rates for apartments. This chart shows that both LA and Orange County have seen a straight line appreciation in rental rates since 1990 until 2005. The apartment rental rate average in Orange County in 1990 was \$800 (the average for apartments of all sizes) and is currently \$1,400 in the 3rd quarter of 2005.

Chart 6

## Vacancy Rates for Apartments Southern California Region



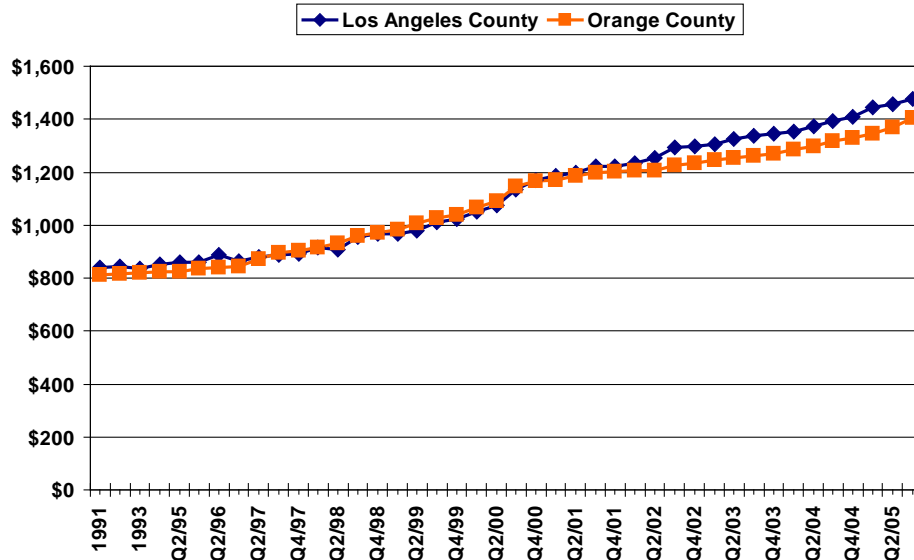
SOURCE: Real Facts

California Association of REALTORS®



Chart 7

## Rental Rates for Apartments



SOURCE: Real Facts

California Association of REALTORS®



The City of Irvine has been no exception. Rental rates have been increasing dramatically over the past decade and supply has not kept up with demand. The latest Housing Element reports that the “Regional Housing Needs Assessment” (RHNA) numbers for years 2000 to 2005 indicated a need for an additional 3,128 rental units for lower income households. Of this need, a total of 340 have been built in this period, which confirms the fact that affordable rental housing is both expensive and limited in supply. Obviously, any new affordable rental units in Irvine will be in great demand.

Fortunately, in comparison with surrounding cities, Irvine has a considerable supply of existing affordable rental apartments. The City has 3,155 units of affordable rental housing, which has been developed in response to the City’s voluntary inclusionary housing program. Most of these units are owned and operated by The Irvine Company (TIC) and have been financed with bond programs, which have provided attractive below market rate financing. Unfortunately, many of those units are now in danger of losing their affordability as the restrictions expire.

A suggested strategy for dealing with these “at-risk” units is presented on the following page and titled, “Preservation of Existing Affordable Units.” In brief, the City’s inclusionary policies have required that 15 percent of all new units be affordable, with 5 percent reserved for families or individuals of very low income, 5 percent for low income, and 5 percent for moderate income.

To achieve the City’s goal of 9,700 affordable units by 2025, the majority of these units should be rental units, since the need for rental units is great and they are the most cost-effective to build and manage, requiring less per-unit subsidy than for-sale units. In the past, local developers have contracted with non-profit developers (specifically Jamboree Housing Corporation and BRIDGE) to build and manage these projects.

By partnering with non-profits, the City is able to leverage its contribution significantly because the non-profits are eligible to apply for funding from state and federal sources (for which for-profit developers are not eligible) and also solicit tax credit investments. In addition, the units remain affordable over the long term. For example, projects built by The Irvine Company have restrictions for 30 years. Projects built and owned by non-profits retain permanent affordability in most cases because the non-profits own the projects and control rents to affordable levels.

### New Rental Housing Recommendations

It is in the City’s interest to assure that new affordable rental housing be created with permanent affordability, like the Jamboree and BRIDGE projects. Then, later on, there will be no danger of a large supply of expiring units as is the case now. Furthermore, as explained above, the City needs a consistent strategy to employ in negotiations with its developers.

Therefore, it is recommended that, in the future, the City negotiate with its developers for land to be donated to the TRUST, or funds be given to the TRUST to purchase

parcels, or both, as a means of fulfilling the City's inclusionary requirements. The TRUST would then lease the land to for-profit and non-profits in return for their agreement to build permanently affordable rental housing on these sites to serve the prescribed income categories. Other cities, some with and some without community land trusts, have leased land to non-profits and retained both ownership of the land and control over the improvements.

Because it involves dealing with an additional entity, the TRUST land lease structure is somewhat more complicated for non-profits than a simple land donation, dedication or below-market sale, and there may be some initial concerns on working with the TRUST. However, experience in other cities suggests that, once a non-profit developer has done the first project with a community land trust, initial resistance subsides and it becomes increasingly easier to do subsequent projects.

### Preservation of Existing Affordable Units

In California, there are approximately 149,000 multi-family rental housing units at risk of market rate conversion, plus additional tax credit and mortgage revenue bond properties, many with project-based rental assistance. These at-risk units are occupied by families and individuals with lower incomes who cannot afford to pay market rate rents and who could be displaced if the projects convert. A large percentage of these units may convert to market rate as subsidy contracts or regulatory agreements expire. Potential conversion of affordable units to market rate units is an ongoing and critical statewide problem.

In Irvine, there are 4,400 apartment units, of which a approximately 2,500 belong to The Irvine Company. The remaining units are under different ownership and also have expiring subsidies, as detailed in the City's Housing Element. The Irvine Company's affordable units are scattered throughout apartment projects and are not discernable from market rate units. Starting in 2010, most of these affordability restrictions will begin to expire.

Depending on the type of financing involved, property owners may be subject to the State's "Preservation Notice Requirements", which in essence requires that a "Notice of Intent" to terminate rent restrictions must be sent by First Class mail to all affected households and to affected public agencies, which would include in this case the City of Irvine and the County of Orange. The notices must be sent twelve, then six months in advance of the expirations, unless the project is exempted (California Government Code Section 65863.10). In addition, private owners of assisted multi-family rental housing units who are contemplating lifting rental restrictions and converting restricted units to market-rate units must inform the State Department of Housing and Community Development (H&CD) of their intentions.

## Preservation Recommendations

If Irvine is to reach its goal of 9,700 affordable housing units by 2025, it is in the City's interest to try to "preserve" the affordability of these units, hopefully in perpetuity, providing that this is economically feasible. The City will need to decide whether to take actions and/or commit funds to preserve the affordability of this housing. This could take the form of providing additional subsidy funds to these projects, or, alternatively, purchasing affordability covenants on these units which would permanently preserve their affordability.

Actions which the City could take, independently of the TRUST, might include the adoption of a rent control/rent stabilization ordinance. However, the Housing Task Force does not recommend this option. Cities with rent control and/or rent stabilization programs have typically been cities that are primarily built out (unlike Irvine), and where the majority of the residents are renters (also unlike Irvine). Furthermore, rent control has proven to be a major disincentive for developers, resulting in very limited new unit creation.

Three possibilities remain:

- The City could negotiate with owners/developers of affordable housing to extend the affordability of the existing units for a future fixed period and hope to arrive at a mutually acceptable cost for such extension. With developers who propose to build new projects, this might include a combination of money plus in-lieu fee credit applied toward future developments; or
- The City could negotiate with the owner/developers to purchase permanent affordability covenants on the existing affordable units which could subsequently be transferred to the TRUST; or
- The City could use its land use policy to allow a change in zoning in vacant land owned by the City of Irvine. The change in zoning or density would have value to developers and that value could be translated into permanently preserving a number of existing affordable units.

It is recommended that the City explore the second and third options, using the TRUST, because this will create permanent affordability (which is beneficial even if the funds are only sufficient for covenants applying to fewer than the total 4,400 units). The management of the units would most likely remain under the control of the current ownership. Although the TRUST would not have a land lease, it would own the covenants and have an ongoing monitoring function.

There are several other variations on this option which might be explored. One option would be to have the TRUST issue below-market-rate mortgage revenue bonds (using the City as pass-through) on behalf of the projects and extend the unit's affordability by

extending the below-market financing. However, while this will extend affordability, it probably will not create permanent affordability.

Another option would be for the developer to donate the existing land under the existing projects with affordable units to the TRUST, thereby gaining a charitable deduction. Following the land donation, the TRUST could lease the land back to the developer. The TRUST might, at the same time, issue mortgage revenue bonds (see above), either to purchase the improvements (which would probably create a tax recapture issue for the developer) or pass through the new mortgage revenue bond financing to the developer, with the developer retaining the management contract. The advantage of this last alternative is that TRUST would not own the improvements and only hold the land lease, making the role of the TRUST clear and consistent with its other projects.

These potential alternatives and variations will need to be explored with the owners/developers of the existing affordable units in Irvine. As stated above, it is recommended that the City propose to obtain permanent affordability covenants on the existing affordable units, while also negotiating future zoning changes on undeveloped land in return for extensions of affordability on existing units. Depending on the option that the City decides to pursue and based upon its negotiations with owners/developers, legal documents will need to be developed. The TRUST will be drawing from other land trusts around the country to create these documents in order to create a clear and consistent preservation strategy for the City to implement through the TRUST.

As a context for making the above decisions, the City should calculate the tradeoffs between extending the affordability of the existing affordable units in Irvine as opposed to creating new affordable rental units under the TRUST structure which will remain permanently affordable. Once the costs of affordability preservation are known (from negotiations with developers), the creation of new permanently affordable units may turn out to be the preferred option.

Rental projects for special needs groups are described in the following section.

### Special Needs and Homelessness

As described above, the City's adopted Vision Statement calls for the development of affordable housing for special needs groups, described as "youth, seniors, veterans, single parents, developmentally disabled, Single-Room Occupancy projects (SRO's), people living with AIDS or chronic illnesses, supportive/transitional housing, and mobile home parks. The Vision Statement also calls for the reduction of the frequency and duration of homelessness.

### Special Needs Recommendations

For special needs projects, the TRUST would work with a special purpose non-profit (i.e. senior services agency, etc.) to facilitate the development of special needs housing on land that was either donated or acquired as part of a larger project.



The TRUST's role would vary considerably between different projects in this category. One key role will be in underwriting the proposed service provider to insure that the provider has a strong track record with other similar projects of the nature proposed, has continuing access to sources of funding and support, and has sufficient capital and other resources to represent a strong partner for the TRUST with minimum credit risk. In projects of this nature, it may also be necessary for the TRUST to either own or be part owner of the improvements, in cases where the service providers do not have the skills or adequate resources to construct the improvements (residential facilities). Such situations may require the TRUST to engage in fundraising from outside sources to develop the special needs projects.

The TRUST's roles will likely vary considerably between different projects in this category and it will be difficult to predict the demand on staff time or the fees that the TRUST would earn. However, these projects would all involve a ground lease similar to the one used for affordable rental projects.

#### Homeless and Supportive/Transitional Housing Recommendations

As opposed to "shelter-based" temporary solutions to address homelessness, homeless programs are now being designed in conjunction with supportive and transitional housing programs. Homelessness continues to be a problem in Southern California. However, cities have difficulty estimating the incidence of homelessness within their boundaries. It is difficult to count people through normal census procedures who have no address and are constantly moving around. In reality, most of the estimates of local homeless populations come from the agencies that serve them.

"Families Forward," the City's major homeless provider, estimates that there are more than 30,000 families in South Orange County that have no place to call home. Given these figures, it is evident that some degree of homelessness also exists in Irvine. While the 1990 census recorded only seven homeless people in shelters within Irvine, Families Forward currently manages 14 housing units (soon to double to 28 with 14 to be added on the former Tustin Marine Corp Air Station) that provide shelter and related services to the homeless. In addition, the City has a 192-unit Single-Room Occupancy (SRO) facility, called The Irvine Inn, which serves the near homeless and also serves as a shelter for victims of domestic violence. The AIDS Services Foundation in Irvine also provides limited financial assistance for HIV-disabled clients through offering funds for rent and utilities, as well as for medically-related services.

People without a place to call home need shelter, and groups like Families Forward are addressing that need. Shelters are seen as necessary and critical short-term solutions. However, for many cities, the homeless debate has turned from the creation of more and more shelters to prevention of the underlying causes of homelessness.

Recent prevention efforts have centered on two sides of the homeless issue:

1. Efforts to prevent individuals and families from becoming homeless in the first place; and
2. Efforts to diagnose the cause of existing homelessness in individual cases and provide appropriate supportive services to return the individual to being a productive member of society, whenever possible.

### Prevention Prior to Homelessness

Services for families and individuals who are “on the brink” of becoming homeless can offer an effective prevention strategy in some cases. Strategies can include temporary shelter and/or temporary rent subsidies where homelessness is seen not as chronic but temporary (such as loss of a job, but with good prospects of finding work in a reasonable period of time). The high cost of rent in Irvine (see Rental Housing, above) is a factor which probably increases the incidence of homelessness in these cases, since rent takes a high proportion of disposable income. Families Forward and the other agencies understand this situation and offer intervention assistance.

### Prevention After Homelessness Has Occurred

Most of the new homeless efforts today are being focused on preventing the reoccurrence of homelessness, and are directed toward temporary shelter combined with an evaluation of the underlying causes of homelessness and referral to appropriate service providers. The common name for this approach is “supportive housing”.

In supportive housing projects, longer-term shelter (six to twelve months, sometimes with extensions) is combined with intake evaluation and service referral. The diagnosis must confirm that there is an opportunity to prevent the recurrence of homelessness and return the individual to being a productive member of society. In cases where homelessness is deemed chronic (i.e. physical or mental illness not deemed treatable), other shelter options are recommended. For the rest, a short-term lease is offered, based on the individual or family’s ability to pay combined with other financial assistance. The lease requires that the individual engage actively in the services and treatment prescribed by the intake evaluation. San Diego and San Francisco are currently promoting innovative “supportive housing” projects and strategies and, as these programs proceed, the City of Irvine can evaluate them and determine their applicability to the local circumstances. While additional shelter opportunities are always needed, it is recommended that the City of Irvine pursue a homeless prevention strategy, in accord with its Vision Statement, and participate through the ICLT in the development of one or more “supportive housing” projects, as described below.

Once the TRUST has the appropriate land, and homeless has been identified as the priority use for that land, the TRUST would issue a Request for Proposal (“RFP”) for

agencies who would be willing to build and operate a supportive housing project on the site. For economies of scale, the project should have at least 40 units.

Service providers could respond to the RFP in connection with housing developers, including both for-profit and non-profit organizations. Funding sources should be identified by the TRUST, to facilitate the development of a projects, which could include the State's Multifamily Housing Program (MHP), tax credits, tax-exempt bonds, AHP funds from the Federal Home Loan Bank, HOME funds and other local sources of support.

Once the facility is built, it will be sold or leased to a service operator. The TRUST will retain the lease on the land. The TRUST will need to underwrite the proposed service provider to insure that it is likely to have the appropriate support to maintain and operate the project. Ideally, the project operator will lease the improvements by seeking funding from outside sources (foundation and/or public grants, individual contributions, etc.). The facility might be designed with commercial space for social service providers who can pay rent to the operator as well as offer on-site services to the residents.

In addition to collecting lease fees, the role of the TRUST will be to monitor the operations of the facility to assure that it is serving the needs it is intended to serve and is making a meaningful contribution toward the goal of reducing the incidence of homelessness in Irvine.

## **VIII. CREATION OF THE IRVINE COMMUNITY LAND TRUST**

As discussed above, the Irvine Community Land Trust (the “TRUST”) will provide the structure through which the City will implement its future affordable housing programs. The City’s Housing Task Force has reviewed the concept of the TRUST and has recommended its creation to the City Council. Since the TRUST must be a public charity approved by the IRS (under Section 501c3), an application must be prepared and submitted to the IRS for review and approval. This process usually takes about six months and sometimes a longer period of time.

In order to expedite the process following the City Council’s approval, city staff has requested that the supporting materials essential to the IRS application be prepared in advance of the Council’s decision. The Housing Task Force has already met with the consultants to discuss the structure of the TRUST and how it will operate.

The Housing Task Force has met three times to make the initial recommendations regarding the Trust’s structure. The issues addressed include the following:

- Reviewing incorporation documents for the TRUST in California (name, address of initial agent and contact information, charitable purpose statement, and filing).
- Finding and engaging qualified and specialized legal counsel to help prepare the IRS application.
- Reviewing the narrative overview of the TRUST and its operations and what charitable purpose it will pursue (relieving the burdens of government through facilitating the creation of affordable housing).
- Reviewing the items in the TRUST’s proposed bylaws, including:
  - Determining the initial size and structure of the Board of Directors of the TRUST.
  - Proscribing how the Board will do its business (annual, regular and special meetings, quorum requirements, fees and compensation, minutes, etc.).
  - Determining the number, role and responsibilities of TRUST committees.
  - Reviewing anticipated initial TRUST staffing (by City staff).

The Housing Task Force has also reviewed a preliminary business model and budget for the TRUST, projecting the types of initial projects, affordability mix, and sources and uses of initial income.

After City Council approval, the application will be filed with the IRS, with a decision expected in six months. When the IRS approval is received, the attorneys will prepare and file a similar document with the State of California Franchise Tax Board. The State of California's approval is usually granted quickly, following IRS approval. The implementation steps following Council approval are detailed in Section IX of this report.

## **IX. IMPLEMENTATION PLAN**

This section of the report details the steps necessary to implement the City's affordable housing strategy. The steps are not sequential, and many can proceed in concurrence with others.

Implementation Step 1: Approve the Strategy, Appoint the Interim Board of the TRUST, and authorize the Board to file the 501c3 application with the IRS.

After approval of the strategy by the City Council, the Council will also appoint two members to serve as the interim Board of Directors of the TRUST. The interim Board will meet to authorize the filing of the IRS application.

Implementation Step 2: Direct City staff to serve as initial TRUST staff.

While the TRUST will eventually have its own staff, City staff can serve as initial TRUST staff during the organizational development work and until the TRUST has obtained land and is ready to begin project development activities. It is recommended that the Housing Manager serve as the TRUST's initial staff, with assistance from other City staff as needed.

Implementation Step 3: Appoint the rest of the TRUST Board and begin organizational activities.

The City Council should appoint the rest of the TRUST Board within the next 30 to 60 days and the Board should begin its organizational activities so that it will be ready to operate when the IRS approval is received. Activities during this six-month period will include the following:

- Holding the first organizational meeting of the TRUST Board of Directors.
- Setting the priorities for types of initial projects (see recommendations below).
- Preparing the job description for the TRUST President (Executive Director). As discussed above, staff will be hired only when the TRUST is ready to begin development activities.
- Reviewing the Preliminary Business Plan (submitted with the IRS application) and preparing and adopting the final Business Plan.

- Working with attorneys to prepare the basic TRUST legal documents, including:
  - The basic ground lease for rental and homeownership projects.
  - Sale and rent-up agreements.
  - Monitoring agreements with lessees.
  - Tenure documents, including:
    - Property maintenance standards
    - Resale formulas (including inheritance issues)
    - Subletting provisions
    - Other (how to value improvements, insurance requirements of lessees, etc.)
  - Covenant documents applicable for extending the affordability of existing units in Irvine.

The City has recently hired a new Housing Manager to oversee and manage its future affordable housing projects, and is also consolidating the housing programs, staff and resources into a new Housing Division. As the timing of the resources becomes clear, it will be necessary to have the appropriate staffing under the Housing Manager so that the resources can be successfully employed. Additional positions will most likely be necessary to manage an affordable housing program of this magnitude and can be funded from a percentage of the tax increment and inclusionary housing funds generated. Once the TRUST begins to develop projects in earnest, having a separate TRUST staff will provide additional legal separation between the City and the TRUST, which will potentially avoid any future problems that may arise from development activities.

Implementation Step 4: Approve a Seed Capital Grant for the TRUST.

The plan is for the TRUST to become operationally self-sufficient, although it may need future support associated with the development of specific projects. As noted above, a business plan will be developed for the TRUST, which will include projected revenues versus projected income and expenses.

The experience of community land trusts established in other cities shows that the ICLT will require support in the initial two to three years of its existence until its revenues can support its operations. It is estimated that the TRUST can become self-sufficient within three years, but in the interim will need operational support from the City. As a 501c3, the organization will be eligible for this assistance and 20 percent housing set-aside funds and/or Community Development Block Grant funds are a likely financing source.

A preliminary estimate of the necessary seed grant is \$250,000, paid over two to three years and starting sometime between Fiscal Year 2008 and 2010. More accurate projections will be included in the TRUST's business plan. As in other cities which have established community land trusts, like Burlington, Vermont, the City staff and the community land trust staff will work closely together in a common effort to increase and maintain the city's affordable housing stock.

Implementation Step 5: Update housing affordability standards.

The City should adopt specific definitions and parameters as to what constitutes an affordable housing project in Irvine and what income levels will be served. The standards need to be consistent with State law. These definitions and parameters should be incorporated into the City's Housing Element and zoning codes so that developers are aware of them. Since Redevelopment Agency tax increment funds will be a major source of funding for affordable housing projects, it is recommended that the City amend Chapter 2.3 of its zoning code to include the affordable housing definitions as defined in the State of California Health and Safety Code, Section 50000. Such definitions include both income categories as well as housing costs. By doing so, there will be no misunderstandings by any parties about what constitutes affordable housing in Irvine.

Implementation Step 6: Update the City's inclusionary housing program.

The City's inclusionary housing program should be revised to require permanent affordability for future inclusionary units created, through permanent affordability covenants dedicated to the TRUST. Also, with the formation of the TRUST, it will be necessary for the City to create incentives for developers (and others) to donate land to the TRUST. The City can do this informally in discussions and entitlement negotiations with developers, but the incentives should be built into the City's inclusionary program. The City should review its inclusionary program menu options and make appropriate adjustments which add incentives for the land donation option. This might take the form of increasing present or future credit for land donations compared with the other options. This is appropriate because, with the establishment of the TRUST, the City will now have the ability to create housing which is permanently affordable, and there is an increased value in this outcome which justifies providing increased credit for land.

In the future, the City should resist investing local subsidy funds into new inclusionary units because this will diminish the City's resources necessary to create more units later. In addition, the City should remove incentives allowing developers to build fewer affordable housing units when building for-sale units and/or units with more bedrooms or deeper affordability.

Implementation Step 7: Develop Project Priorities and Standards

It will be up to the City to prioritize what types of affordable housing projects it intends to promote through the TRUST. It is recommended that the initial projects include both a



homeownership project and a multi-family rental project. Subsequently, other projects can be added to address the additional priorities identified in the Vision Statement. The City and the TRUST should continually evaluate the economic tradeoffs between preserving existing units and building new ones, particularly if the new units will be permanently affordable.

#### Implementation Step 8: Implement Community Land Trust Outreach Program

It will be necessary to inform the community about the existence of the TRUST and explain how it works. This will be of critical importance to those who will have to work with the TRUST including:

- Lenders (who will need to learn about making leasehold mortgages on TRUST-leased land).
- Fannie Mae (which has developed lender underwriting standards for these types of loans and will purchase conforming loans in the secondary market).
- Realtors (who will need to understand the TRUST's homeownership model).
- The Orange County Business Council (which may provide subsidies to the TRUST through its new Housing Trust Fund).
- The County Housing Authority (which can assist with publicity for TRUST properties).
- NHS of Orange County (which could contract for homeowner counseling)
- The Kennedy Commission (which could help promulgate the TRUST concept to other cities)
- Non-profit and for-profit developers who will potentially be developing projects in conjunction with the TRUST.

The City, together with the Board of Directors of the TRUST, should develop an outreach program to inform all the members of the community and other stakeholders about the TRUST and its stewardship function and answer any questions concerning its operations.

#### Implementation Step 9: Create and update unit production objectives every five years to 2026.

As described in the Executive Summary, a unit and revenue model was developed including the critical data and assumptions that will determine the number of affordable housing units eventually produced. The full model appears in the Appendix of this

report, together with an explanation of the assumptions and the inter-relationship of the variables.

The current key assumptions are as follows:

- \$150,000 average per-unit subsidy for both rental and homeownership projects.
- 544 affordable units built at the Great Park (El Toro) site as a result of the City's inclusionary requirements.
- \$143 million of available 20 percent tax-increment set-aside funds.

The model demonstrates that the goal of 10 percent (9,700 units) is possible but will require significant changes to the City's housing programs as recommended above. With the conservative assumptions and based on the City's currently projected revenues and inclusionary requirements, a total of 7,929 units are likely to be produced. This is 1,771 units short of the goal. However, the goal of 10 percent (9,700 units) would be achievable under slightly more aggressive assumptions. For example, if the City sets aside more than the minimum 20 percent of tax increment funds for affordable housing, reduces its average subsidy per unit, increases incentives for land donation in the inclusionary ordinance, negotiates for preservation of existing affordable units and/or increases its leverage of state and federal housing funds, 9,700 units should be possible. The model results emphasize the need for the City to be aggressively proactive to maximize the use and leverage of its funds in order to achieve this goal.

The City and the TRUST should use this model to set production objectives for every five years through 2026. The City should then update the model as assumptions change and manage toward both the five-year goals and the 10 percent (9,700 units) goal.

With the adoption of this Housing Strategy, the City embarks on an ambitious plan to create a significant amount of affordable housing for future generations of Irvine residents. The existence of this housing will ensure that the City maintains a variety of housing types in sufficient volume to preserve and grow the City's diverse population.

The City should use the strategy as a "living document" and ask Housing Staff to evaluate progress (using the tracking system mentioned above). From that evaluation, the City will be able to consider updates to the strategy as conditions and opportunities change. For example, when the new Housing Element is prepared in 2008, the updated housing needs should be incorporated into the strategy. As funding sources change, as some programs disappear while others become available, the strategy should be updated to reflect these changes.

Of course, the City and the TRUST should continue to seek ways to leverage the City's funds as much as possible with other sources of funds so that the maximum number of

affordable housing units can be developed with the available dollars. Whereas Irvine is fortunate to have affordable housing resources available, it will be necessary to make highly efficient use of those funds if the City's goal of 10 percent (9,700 affordable units) is to be achieved by the end of 2025.

## **X. FUTURE POSSIBILITIES**

It should be noted that community land trusts are not limited solely to affordable housing, although this is certainly their main focus. Other community land trusts have developed mixed-use projects. The Burlington Community Land Trust owns property which includes 60,000 feet of commercial development, most of which is rented to non-profit organizations. The rent from these commercial ventures, while still below market, is used to cross-subsidize its affordable housing projects.

Similarly, community land trusts have created non-profit villages which have provided concentrated space for the offices of non-profit organizations. If the City of Irvine was interested in developing a non-profit village in association with some of the other developments in and around the Great Park, the TRUST could conceivably play a role as the landowner for these projects.

\* \* \*



## APPENDIX A

### 20-YEAR AFFORDABLE UNIT & REVENUE PROJECTIONS

The analysis below presents a projection of affordable housing units and revenues over a 20-year period. What is immediately evident from this analysis is the fact that over 95 percent of the existing affordable units are at-risk of losing their affordability at some point in the future. While the next 20 years shows an overall increase in affordable units, this number would be significantly greater if the existing units had included a component of permanent affordability. The value of the Trust is better understood when comparing the large number of new units created with the significant decline in the existing affordable units as restrictions expire.

The 20 year projection of affordable units which follows this discussion is based upon the following assumptions that are critical to the outcome of total units created or preserved in Irvine:

1. \$150,000 per unit subsidy for rental units: This is a blend of tax credit projects with most of the projects receiving less assistance from the State and an average income between 45 and 50 percent. This is a rough estimate and depends upon affordability levels, building type, density, and the ability of developers to leverage other County, State and Federal dollars.
2. \$150,000 per unit subsidy for ownership units: This assumes that most of the applicants will be at 110 percent of median income and utilize low-mod housing funds.
3. 3,625 units built at the Great Park site: If this number is higher, based on negotiations, there will be an increase in the total number of affordable units built based upon the City's inclusionary requirements. However, there may also be an additional increase in affordable units created if the negotiations provide the City with either donated land or more affordable units created for the Trust.
4. \$143 million of low/mod housing set-aside funds: This is a projection based upon current real estate values. If the total number of units changes and/or the total value of real estate changes, this will alter the total number of affordable units built, and the total low to moderate housing set-aside funds that are generated.

Based upon these assumptions, at the end of the 20 years, the City of Irvine will have a total of 7,929 affordable units. Even after 20 years, some of the units will likely still be at risk of losing their affordability. However, if the City of Irvine's focus remains on creating permanent affordability for the new units, then the percent of units that are at-risk at the end of the 20 years could drop to as low as 50 percent. The other 50 percent of units will be in the Trust and permanently affordable.

Although 7,929 units is lower than the 9,700 units (10 percent) of the Housing Task Force goal, a number of critical factors will affect the actual units offered. The negotiations and decisions over the next five years are critical in influencing the total number of permanently affordable units. The examples below indicate how the number of units can change based on a number of variables.

1. If the City of Irvine works with its local non-profits to obtain Federal, State, County, and other sources of outside money with the purpose of lowering the City's per unit subsidy from \$150,000 to \$125,000 for new rental projects, the net result would be the creation of approximately 200 more permanently affordable units.
2. If the City of Irvine increases the available low-moderate set aside funds from 20 percent of the increment funding to 40 percent, and dedicates the increased funding to the construction of new units, the net result would be the creation of approximately 600 more permanently affordable units. That strategy would cost the Agency approximately an additional \$123 million dollars, drawn from the 80 percent tax increment funds.
3. If the preservation of an existing unit costs only \$75,000 per unit and the creation of a new affordable unit costs \$150,000, the net result would be the creation of approximately 772 more permanently affordable units, if funds were shifted to that priority. However, this option would not establish permanent affordability, but just extend the expiration date of an affordable unit. This may only prolong a difficult problem. At some point it may be better to create the new unit even though it may cost more in the short term. As recommended in the strategy report, the City should develop and update periodically an economic analysis showing the cost differential between preserving a unit for a finite period of time versus creating a new unit with permanent affordability. It then becomes a policy decision as to how much it is worth to create a permanently affordable unit versus preserving an existing one for a finite period of time.
4. If there are opportunities to increase density or swap existing City/RDA-owned land for more land in a different location, or swap land for more permanently affordable units, the net result would be the creation of additional affordable units at little or no net cost to the City.

The details of the model are provided on the following page.

**City of Irvine**

**Affordable Unit & Revenue Projections**

July 19, 2006

**ASSUMPTIONS (see appendix for further details)**

Percent of IBC area paying an in-lieu fee	10%
Percent annual increase in construction costs	3%
Percent annual increase in land value (in-lieu fee)	5%
Total # of units at Great Park	3,625
Affordable Rental Units Built From Available Revenues	80%
Affordable Ownership Units Built From Available Revenues	20%

Existing/Approved Ownership Units \*

Previous DAP units	10
Newly funded DAP units	10
Habitat for Humanity	12
Approved For Sale Units	93
<b>Total</b>	<b>125</b>

**PROJECTED HOUSING REVENUES**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Low/Mod Housing Set-Aside	\$1,300,035	\$1,326,054	\$1,977,295	\$4,284,914	\$6,152,831	\$7,423,852	\$8,677,762	\$8,851,335	\$9,028,379	\$9,299,257	\$9,578,261	\$9,865,635	\$10,161,630	\$10,466,505	\$10,780,526	\$11,103,968	\$11,437,114	\$11,780,253	\$12,133,687	\$12,497,724	\$12,872,682
In-Lieu Fee (IBC Area)	\$2,494,200	\$2,618,910	\$2,749,856	\$2,887,348	\$3,031,716	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
In-Lieu Fee (Infill Projects)	\$50,000	\$52,500	\$55,125	\$57,881	\$60,775	\$63,814	\$67,005	\$70,355	\$73,873	\$77,566	\$81,445	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
In-Lieu Fee (Great Park)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
CDBG Capital Expenditures towards subsidizing units	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
HOME less CHDO Set Aside & Admin	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500	\$487,500
<b>Total Housing Revenues Available To Build New Units</b>	<b>\$4,831,735</b>	<b>\$4,984,964</b>	<b>\$5,769,776</b>	<b>\$8,217,644</b>	<b>\$10,232,822</b>	<b>\$8,475,166</b>	<b>\$9,732,267</b>	<b>\$9,909,190</b>	<b>\$10,089,752</b>	<b>\$10,364,323</b>	<b>\$10,647,205</b>	<b>\$10,853,135</b>	<b>\$11,149,130</b>	<b>\$11,454,005</b>	<b>\$11,768,026</b>	<b>\$12,091,468</b>	<b>\$12,424,614</b>	<b>\$12,767,753</b>	<b>\$13,121,187</b>	<b>\$13,485,224</b>	<b>\$13,860,182</b>

**PROJECTED UNITS BUILT PER YEAR**

Subsidy Per Affordable Rental Unit (see appendix for assumptions)	\$150,000	\$154,500	\$159,135	\$163,909	\$168,826	\$173,891	\$179,108	\$184,481	\$190,016	\$195,716	\$201,587	\$207,635	\$213,864	\$220,280	\$226,888	\$233,695	\$240,706	\$247,927	\$255,365	\$263,026	\$270,917
Subsidy Per Affordable Ownership Unit (110% median income buyer)	\$150,000	\$154,500	\$159,135	\$163,909	\$168,826	\$173,891	\$179,108	\$184,481	\$190,016	\$195,716	\$201,587	\$207,635	\$213,864	\$220,280	\$226,888	\$233,695	\$240,706	\$247,927	\$255,365	\$263,026	\$270,917
Agency Assisted Rental Units Built <i>Per Year</i>	26	26	29	40	48	39	43	43	42	42	42	42	42	42	41	41	41	41	41	41	41
Agency Assisted Ownership Units Built <i>Per Year</i>	6	6	7	10	12	10	11	11	11	11	11	10	10	10	10	10	10	10	10	10	10
<b>Total Agency Assisted Affordable Units Built <i>Per Year</i></b>	<b>32</b>	<b>32</b>	<b>36</b>	<b>50</b>	<b>61</b>	<b>49</b>	<b>54</b>	<b>54</b>	<b>53</b>	<b>53</b>	<b>53</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>

**CUMULATIVE UNITS AVAILABLE**

Existing Affordable Units (3,155 + 1,245)	4,400	4,400	4,400	4,400	4,400	2,842	2,626	1,677	1,677	1,677	1,677	1,677	1,677	1,677	1,677	1,677	1,677	1,677	1,677	1,677	1,677
Preservation of Existing Affordable Units at no cost	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Existing/Approved Ownership Units *	18	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125
Inclusionary Units Built per MAHP	250	500	1,000	1,500	2,000	2,500	3,000	3,189	3,189	3,189	3,189	3,189	3,189	3,189	3,189	3,189	3,189	3,189	3,189	3,189	3,189
Inclusionary Units Built (IBC)	0	270	540	810	1,080	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350
Total Agency Assisted Units (Permanantly Affordable)	32	64	101	151	211	260	315	368	421	474	527	579	632	684	735	787	839	890	942	993	1,044
Great Park Affordable Housing (15% of Total Great Park Units)	0	0	0	150	300	450	544	544	544	544	544	544	544	544	544	544	544	544	544	544	544
Inclusionary Infill Units (Non MAHP, Great Park, IBC)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Affordable Units</b>	<b>4,700</b>	<b>5,359</b>	<b>6,166</b>	<b>7,136</b>	<b>8,116</b>	<b>7,527</b>	<b>7,959</b>	<b>7,253</b>	<b>7,306</b>	<b>7,359</b>	<b>7,412</b>	<b>7,464</b>	<b>7,516</b>	<b>7,568</b>	<b>7,620</b>	<b>7,672</b>	<b>7,724</b>	<b>7,775</b>	<b>7,826</b>	<b>7,878</b>	<b>7,929</b>



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